State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011



Controller *John Chiang*

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2011

Prepared by
The Office of the State Controller

JOHN CHIANG
California State Controller

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Introductory Section



JOHN CHIANG

California State Controller

JOHN CHIANG
California State Controller

March 23, 2012

To the Citizens, Governor, and Members
of the Legislature of the State of California:

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States of America (GAAP) and contains information to help readers gain a reasonable understanding of the State's financial activities.

California's economic recovery continued throughout the last fiscal year, but at a slow pace. Although the State's "bottom-line" (primary government net assets) does not reflect it, there is some evidence that California's downward trend has stopped and its financial position is improving. For the fiscal year ended June 30, 2011, the State's expenses exceeded revenues by $3.5 billion for governmental activities, a $7.7 billion improvement from last year's $11.2 billion shortfall. Governmental activities include most services and expenses normally associated with state government, such as health and human services, education, business and transportation, correctional programs, and general government.

The State's three major sources of revenue—personal income taxes, corporation taxes, and sales and use taxes—increased in total by 8.6%, from $87.1 billion in the 2009-10 fiscal year to $94.6 billion in the 2010-11 fiscal year. The significant factor was an increase of $7.9 billion in personal income taxes, while corporate and sales and use taxes remained almost static.

Recent indicators show that California's fiscal outlook is not improving as quickly as was forecast. Specifically, as of February 2012, the State's year-to-date cash receipts from its three largest revenue sources was approximately $830 million less than estimated and $6 billion less than the amount received by the end of February 2011. However, while California's unemployment rate was 12.4% in July 2010, it had dropped to 11.8% by June of 2011. In addition, State personal income showed consistent increases in each quarter of fiscal year 2010-11, increasing 5.5% over the course of the fiscal year.

Although California's economy is showing modest signs of recovery, the State still faces budgetary and cash shortfalls in the current and following fiscal years. In the short term, the State needs budget tactics that continue to focus on multiyear results and ongoing solutions. The State must develop consistent funding strategies that will reduce its long-term obligations such as those for infrastructure, retirement, and budgetary borrowing. A focus on achieving long-term fiscal stability must be maintained to ensure sound financial results.

Introduction to the Report

Responsibility for the accuracy, completeness, and fairness of data presented in the CAFR, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and the operations of the primary government and its component units.

State statutes require an annual audit of the basic financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's report on the basic financial statements and the combining and individual fund statements and schedules is included in the CAFR.

The State of California is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In conducting the engagement, the State Auditor used auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Information related to this single audit—including a schedule of federal assistance, the independent auditor's report on compliance with requirements applicable to each major program and on internal controls over compliance in accordance with OMB Circular A-133, and a schedule of findings and questioned costs—is included in a separately issued report.

The CAFR contains three sections: Introductory, Financial, and Statistical. The Introductory Section is designed to provide the background and context that readers need to benefit fully from the information presented in the Financial Section. The Financial Section contains the independent auditor's report, management's discussion and analysis, the basic financial statements, the required supplementary information, the combining and individual fund statements, and the budgetary comparison schedule for nonmajor governmental cost funds. The Statistical Section provides a history of selected financial and demographic information.

The State's Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. Our MD&A provides a narrative introduction to the detailed financial statements and notes contained in the CAFR.

Profile of the Government

Reporting Entity

The financial reporting entity of the State includes all of the funds of the primary government and of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported in the capital projects funds of the primary government. The lease agreements between the building authorities and the primary government, amounting to $501 million, have been eliminated from the balance sheet. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide statements. The Golden State Tobacco Securitization Corporation is reported as a special revenue fund of the primary government.

Discretely presented component units are reported separately in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Additional information on the reporting entity is included in Note 1, Summary of Significant Accounting Policies.

Budgetary Controls

The State Legislature prepares an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. Throughout the fiscal year, adjustments in the form of budget revisions, executive orders, and financial legislation agreed to by the Governor and the Legislature are made to the budget. The State Controller is statutorily responsible for control over revenues due the primary government and for expenditures of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The State's accounting system provides the State Controller's Office with a centrally-controlled record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized, meaning the detail of each control account is maintained by each state agency. During the fiscal year, the control accounts and the agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The State Controller's Office combines its control account balances with the agency accrual reports to prepare California's *Budgetary/Legal Basis Annual Report* and the *Budgetary/Legal Basis Annual Report Supplement*. State laws and regulations that, in some cases, do not fully agree with GAAP govern the methods of accounting for expenditures and revenues in these reports.

The information in the CAFR represents a consolidation of the amounts in the *Budgetary/Legal Basis Annual Report* and adjustments to the account balances to conform to GAAP. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section that follows the Notes to the Financial Statements.

Internal Controls

An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with legal requirements and GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

Financial Condition

Economic Outlook

California's economy has continued to improve during the first half of fiscal year 2011-12. Since hitting bottom at the end of the first fiscal quarter of fiscal year 2010-11, the State has added back 351,100 of the non-farm jobs lost during the downturn. Personal income in California, which stood at $1.67 trillion in the third quarter of 2011, has already surpassed its pre-recession peak after almost two years of consecutive growth on a quarterly basis. In addition to growing consumer demand from domestic sources, international trade also has been playing a large role in speeding up California's recovery. California's exports, including industrial machinery, vehicles and parts, aircrafts, pharmaceuticals, and plastics, are booming. While home prices have yet to rebound across the State, the housing market has stabilized and is beginning to move in the right direction. New single-family building permits were still declining through the first six months of fiscal year 2011-12, but multi-family building permits have been trending upward since mid-2010 and nonresidential permit values have steadily increased through 2011.

Budget Outlook

2011-12 Fiscal Year

California's 2011-12 Budget Act was enacted on June 30, 2011. The Budget enacted $27.2 billion in actions to solve a General Fund gap between resources and expenditures. However, revised estimates show that significantly less revenue is expected from the federal government and other sources, and that the State will not be able to achieve all of its other planned budget solutions. The proposed 2012-13 Governor's Budget projects that the General Fund will end fiscal year 2011-12 with a deficit of $4.1 billion.

2012-13 Fiscal Year

The Governor released his proposed 2012-13 Budget on January 5, 2012. This proposed Budget projects a $9.2 billion gap between estimated revenues and state expenditures over the next 18 months. The Governor's Budget proposes $4.2 billion in expenditure-related solutions, $4.7 billion in new revenues, and $1.4 billion borrowed from special funds and other sources. The 2012-13 Governor's Budget (with all budget solutions enacted) projects General Fund revenues and transfers of $95.4 billion and expenditures of $92.6 billion, resulting in a $1.1 billion reserve. A significant element included in the Governor's plan is a proposed initiative to be placed on the November 2012 general election ballot. If approved by the voters, this measure will temporarily increase the personal income tax on annual earnings of more than $250,000 for seven years and temporarily increase the sales tax by one-quarter percent for four years, generating an estimated $6.8 billion to $9 billion for 2012-13, and $5.4 billion to $7.6 billion, on average, in the following five fiscal years. Expenditure-related solutions include reductions of $1.4 billion for CalWorks and $1 billion in combined reductions to Medi-Cal and In-Home Supportive Services.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

This CAFR could not have been prepared without the assistance and cooperation of all state agencies and universities. We wish to thank the State Auditor and her staff for their audit of the financial statements contained in this report. I am also grateful to the members of my staff for their dedicated efforts and professionalism.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davidson

President

Executive Director

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

John Chiang
State Controller

Kamala D. Harris
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
George Runner, Member, Second District
Michelle Steel, Member, Third District
Jerome E. Horton, Member, Fourth District

Legislative Branch

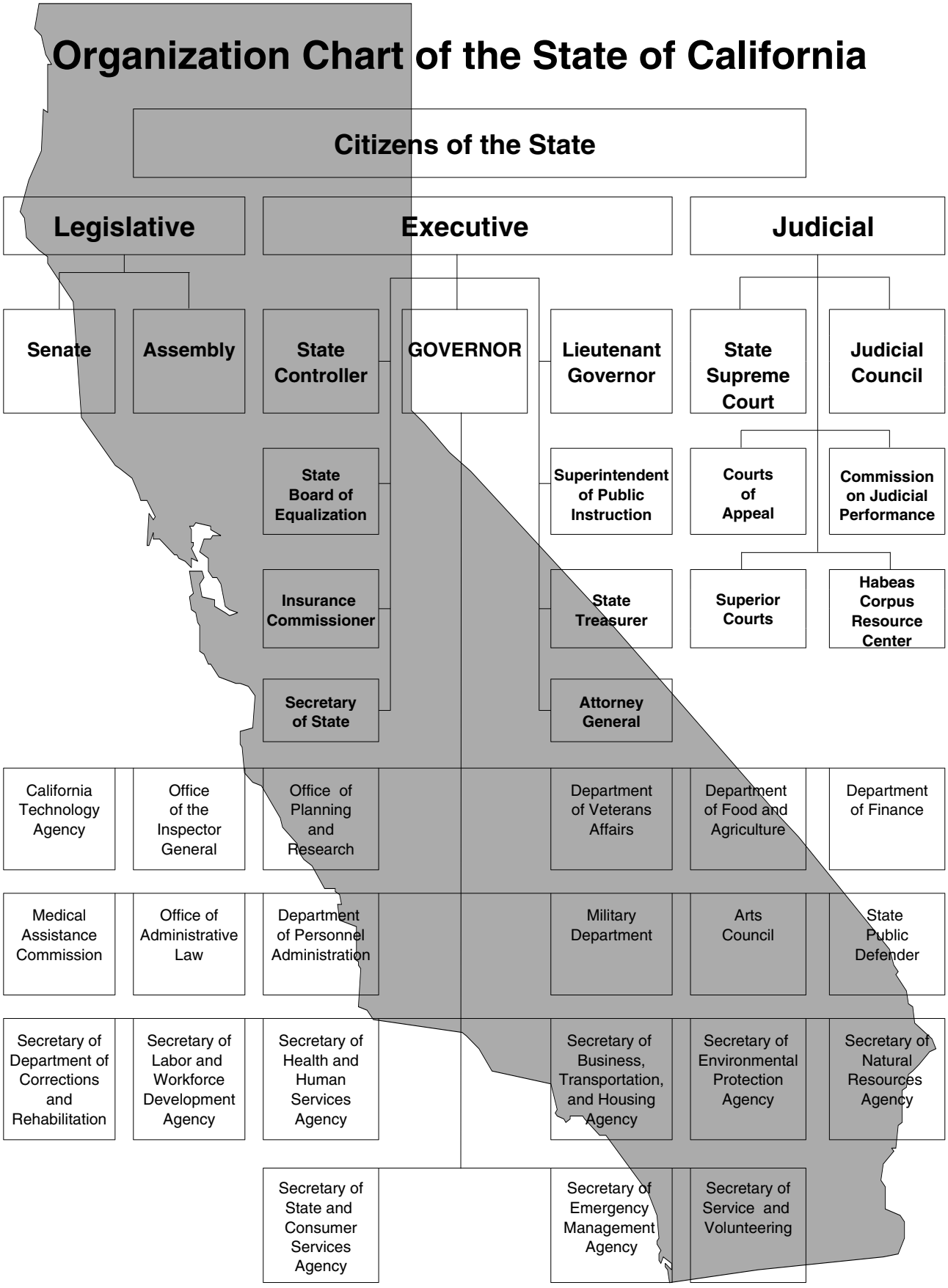
Darrell Steinberg
President pro Tempore, Senate

John A. Pérez
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

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Elaine M. Howle
State Auditor
Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR
Bureau of State Audits

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Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2011, which collectively comprise the State of California's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following significant amounts in the financial statements:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 86 percent and 36 percent, respectively, of the assets and revenues of the business-type activities.

- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, State Lottery fund, and California State University fund.

- Certain nonmajor enterprise funds that represent 92 percent and 66 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 90 percent and 76 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

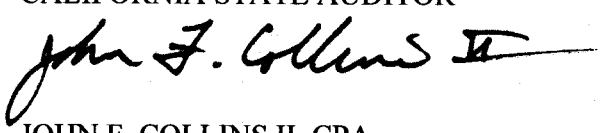
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA
Deputy State Auditor

February 24, 2012

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2011. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

During the 2010-11 fiscal year, California showed signs of fiscal recovery, but it continued to struggle financially as a result of the recent recession. The State's general revenues increased by $10.1 billion (10.7%) from last year; however, revenues were $5.1 billion lower than those received in the 2007-08 fiscal year. Expenses for the State's governmental activities increased slightly from the prior year, but exceeded revenue received resulting in a $3.5 billion decrease in governmental activities' net assets. Total expenses for the State's business-type activities exceeded revenues for fiscal year 2010-11. In fiscal year 2010-11, the California State University financial activities were reclassified from governmental activities to enterprise activities. Reduced general revenues, expenses that exceeded revenues, and increased long-term obligations resulted in a 50% decrease in the total net assets for governmental and business-type activities from the 2009-10 fiscal year.

Net Assets — The primary government's net assets as of June 30, 2011, were a negative $9.7 billion. After the total net assets are reduced by $86.8 billion for investment in capital assets (net of related debt) and by $31.5 billion for restricted net assets, the resulting unrestricted net assets totaled a negative $128.0 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Almost one-half of the negative $128.0 billion consists of $62.6 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net assets; however, local governments, not the State, record the capital assets that would offset this reduction.

Changes in Net Assets — The primary government's total net assets decreased by $3.2 billion (50.0%) during the year ended June 30, 2011. Net assets of governmental activities decreased by $3.5 billion (51.3%), while net assets of business-type activities increased by $330 million (69.3%).

Fund Highlights

Governmental Funds — GASB Statement No. 54 provides new fund balance classifications for governmental funds. The previous reserved and unreserved classifications have been replaced with nonspendable, restricted, and unrestricted balances. Additional information on the State's fund balances can be found in Note 1K in the notes to the basic financial statements. As of June 30, 2011, the primary government's governmental funds reported a combined ending fund balance of $10.8 billion, a decrease of $1.0 billion from the prior fiscal year's restated ending fund balance. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $17.3 billion. The nonspendable and restricted fund balances were $187 million and $27.9 billion, respectively.

Proprietary Funds — As of June 30, 2011, the primary government's proprietary funds reported combined ending net assets of $1.4 billion, an increase of $375 million from the prior fiscal year. After the total net assets are reduced by $1.5 billion for investment in capital assets (net of related debt), expendable restrictions of $3.6 billion, and nonexpendable restrictions of $22 million, the unrestricted net assets totaled a negative $3.8 billion.

Noncurrent Assets and Liabilities

As of June 30, 2011, the primary government's noncurrent assets totaled $134.8 billion, of which $109.0 billion is related to capital assets. State highway infrastructure assets of $61.4 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $158.1 billion, which consists of $78.3 billion in general obligation bonds, $29.4 billion in revenue bonds, and $50.3 billion in all other noncurrent liabilities. During the 2010-11 fiscal year, the primary government's noncurrent liabilities increased by $8.7 billion (5.8%) over the prior fiscal year. This increase was primarily the result of a $3.8 billion increase in the unemployment programs' loan payable to the U.S. Department of Labor, and a $2.6 billion increase in net other postemployment benefits obligations.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the State's assets and liabilities and reports the difference between the two as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. The State reports changes in net assets as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes

and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), business and transportation, correctional programs, general government, resources, state and consumer services, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing building aid to school districts, providing services to California State University students, leasing public assets, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.

 - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities that are blended component units of the State are included in the governmental activities.

 - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The Public Employees' Retirement System and the State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.

 - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Information on how to obtain financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds.

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

 Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.

 - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.

 - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.

- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

As discussed previously, the State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased by 50.0%, from a negative $6.4 billion as restated at June 30, 2010, to a negative $9.7 billion a year later.

The primary government's $86.8 billion investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net assets. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another $31.5 billion of the primary government's net assets represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net assets. As of June 30, 2011, governmental activities showed an unrestricted net assets deficit of $124.0 billion and business-type activities showed an unrestricted net assets deficit of $4.2 billion.

A large portion of the negative unrestricted net assets of governmental activities consists of $62.6 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the primary government.

Table 1

Net Assets – Primary Government
June 30, 2010 and 2011
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	$ 50,820	$ 56,355	$ 33,884	$ 30,324	$ 84,704	$ 86,679
Capital assets	100,464	98,798	8,551	6,794	109,015	105,592
Total assets	**151,284**	**155,153**	**42,435**	**37,118**	**193,719**	**192,271**
LIABILITIES						
Noncurrent liabilities	120,905	115,465	37,203	33,951	158,108	149,416
Other liabilities	40,835	43,887	4,426	3,923	45,261	47,810
Total liabilities	**161,740**	**159,352**	**41,629**	**37,874**	**203,369**	**197,226**
NET ASSETS						
Investment in capital assets net of related debt	85,461	84,085	1,383	90	86,844	84,175
Restricted	27,866	14,988	3,638	3,405	31,504	18,393
Unrestricted	(123,783)	(103,272)	(4,215)	(4,251)	(127,998)	(107,523)
Total net assets (deficit) ..	**$ (10,456)**	**$ (4,199)**	**$ 806**	**$ (756)**	**$ (9,650)**	**$ (4,955)**

Changes in Net Assets

The expenses of the primary government totaled $234.6 billion for the year ended June 30, 2011. Of this amount, $126.4 billion (53.9%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $108.2 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $105.0 billion were less than the unfunded expenses. As a result, the total net assets decreased by $3.2 billion, or 50%.

Of the total decrease, net assets for governmental activities decreased by $3.5 billion, while those for business-type activities increased by $330 million.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Assets – Primary Government
Year ended June 30, 2010 and 2011
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues:						
Charges for services	$ 21,122	$ 21,610	$ 34,819	$ 20,661	$ 55,941	$ 42,271
Operating grants and contributions	67,849	75,470	1,217	—	69,066	75,470
Capital grants and contributions	1,272	962	86	92	1,358	1,054
General revenues:						
Taxes	104,705	94,593	—	—	104,705	94,593
Investment and interest	63	115	—	—	63	115
Miscellaneous	229	150	—	—	229	150
Total revenues	**195,240**	**192,900**	**36,122**	**20,753**	**231,362**	**213,653**
EXPENSES						
Program expenses:						
General government	13,520	12,455	—	—	13,520	12,455
Education	56,487	61,764	—	—	56,487	61,764
Health and human services	92,475	80,800	—	—	92,475	80,800
Resources	5,853	6,019	—	—	5,853	6,019
State and consumer services	1,405	980	—	—	1,405	980
Business and transportation	11,120	14,156	—	—	11,120	14,156
Correctional programs	10,296	10,310	—	—	10,296	10,310
Interest on long-term debt	4,377	4,146	—	—	4,377	4,146
Electric Power	—	—	2,317	3,908	2,317	3,908
Water Resources	—	—	1,116	1,070	1,116	1,070
Public Building Construction	—	—	390	494	390	494
State Lottery	—	—	3,507	3,166	3,507	3,166
Unemployment Programs	—	—	25,619	29,615	25,619	29,615
Nonmajor enterprise	—	—	6,095	1,140	6,095	1,140
Total expenses	**195,533**	**190,630**	**39,044**	**39,393**	**234,577**	**230,023**
Excess (deficiency) before transfers	**(293)**	**2,270**	**(2,922)**	**(18,640)**	**(3,215)**	**(16,370)**
Transfers	(3,252)	(13,442)	3,252	13,442	—	—
Change in net assets	(3,545)	(11,172)	330	(5,198)	(3,215)	(16,370)
Net assets, beginning of year (restated)	**(6,911)**	**6,973**	**476**	**4,442** *	**(6,435)**	**11,415**
Net assets (deficit), end of year	**$ (10,456)**	**$ (4,199)**	**$ 806**	**$ (756)**	**$ (9,650)**	**$ (4,955)**

* Not restated

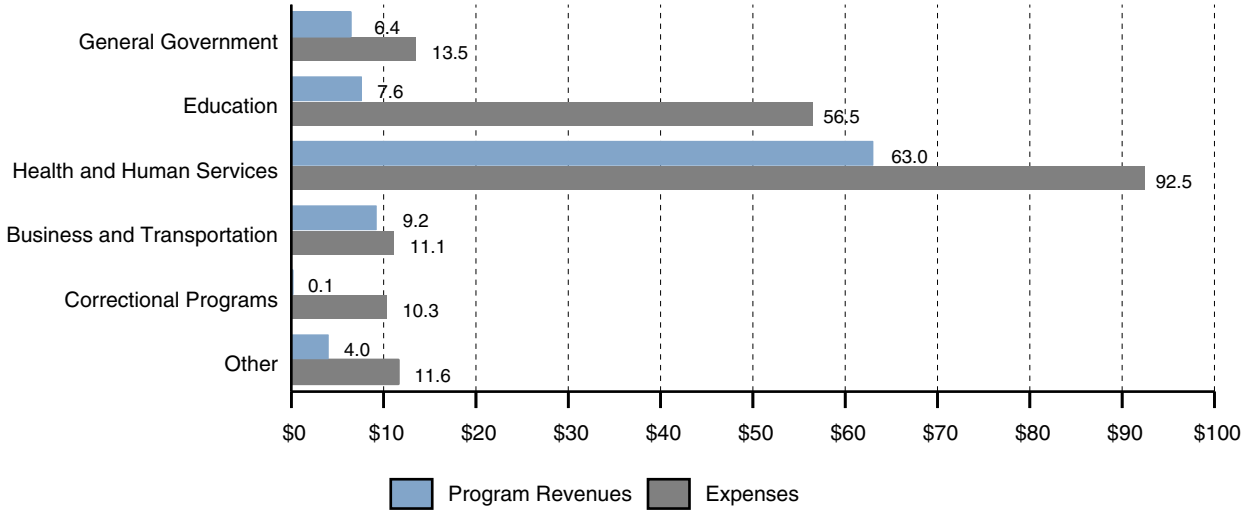
Governmental Activities

Governmental activities' expenses and transfers totaled $198.8 billion. Program revenues, including $69.1 billion received in federal grants, funded $90.2 billion (45.4%) of expenses and transfers, leaving $108.5 billion to be funded with general revenues (mainly taxes). However, general revenues for governmental activities totaled only $105.0 billion, so governmental activities' total net assets decreased by $3.5 billion, or 51.3%, during the year ended June 30, 2011.

Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues – Governmental Activities
Year Ended June 30, 2011
(amounts in billions)



For the year ended June 30, 2011, total state tax revenues collected for governmental activities increased by $10.1 billion (10.7%) from the prior year. Personal income taxes increased by $7.9 billion (17.9%) as a result of higher personal income reported. The other taxes category increased by $2.5 billion. This $2.5 billion increase was primarily the result of Assembly Bill X8-6, also known as the Fuel Tax Swap, which redirected a portion of gasoline taxes from sales taxes to other taxes. Sales and use taxes would have reflected this increase if these taxes had not been redirected.

Overall expenses for governmental activities increased by $4.9 billion (2.6%) from the prior year. The largest increase in expenses was an $11.7 billion increase in health and human services spending primarily due to the creation of the Hospital Quality Assurance Revenue Fund, which was established by Assembly Bill 1383 effective October 2009. This increase in expenses was somewhat offset by a $5.3 billion decrease in education expenditures reported as a result of the reclassification of the California State University financial activities from a governmental fund to an enterprise fund.

Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year ended June 30, 2011
(as a percent)

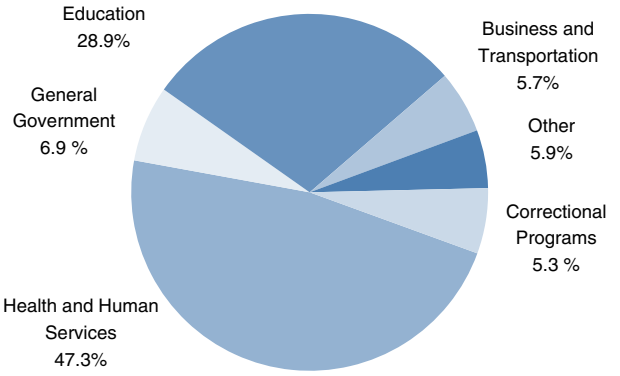
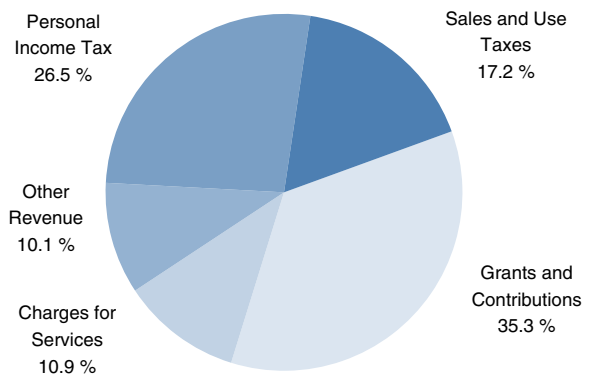


Chart 3

Revenues by Source
Year ended June 30, 2011
(as a percent)



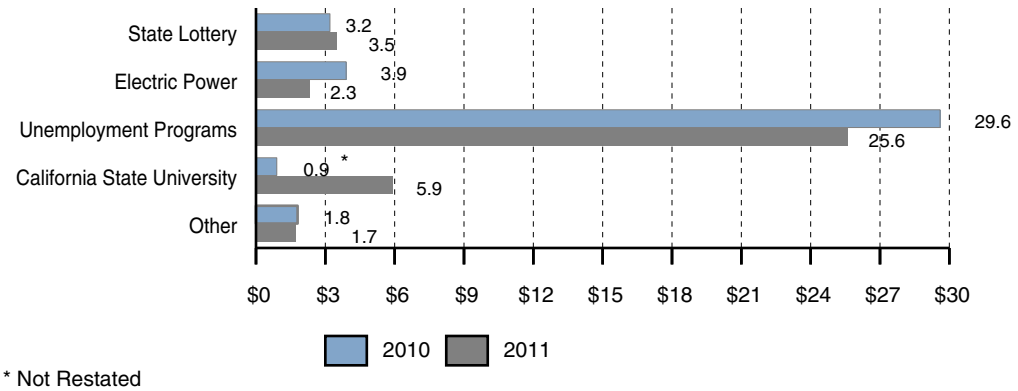
Business-type Activities

Business-type activities expenses totaled $39.0 billion. Program revenues of $36.1 billion, primarily generated from charges for services, and $3.3 billion in transfers were sufficient to cover these expenses. Consequently, business-type activities' total net assets increased by $330 million, or 69.3%, during the year ended June 30, 2011.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses – Business-type Activities – Two-Year Comparison
Years Ended June 30, 2010 and 2011
(amounts in billions)



* Not Restated

Fund Financial Analysis

The national recession and the State's weakened economy had the greatest impact on governmental funds, which rely heavily on taxes to support the majority of their services and programs. The State's governmental funds had a $1.0 billion decrease in fund balance over the prior year's restated ending fund balance. Some proprietary funds incurred net asset reductions, as their expenses exceeded revenues for the fiscal year 2010-11. The Unemployment Programs Fund incurred the largest decline in net assets, $324 million, despite a $13.4 billion increase in operating revenues due to a draw of federal unemployment funds. More federal funds were drawn to compensate for the decreased in funding from the federal American Reinvestment and Recovery Act (ARRA).

Governmental Funds

The governmental funds' Balance Sheet reported $60.7 billion in assets, $49.9 billion in liabilities, and $10.8 billion in fund balance as of June 30, 2011. Total assets of governmental funds decreased by 12.0%, while total liabilities decreased by 9.6%, resulting in a total fund balance decrease of $1.0 billion (8.7%) over the prior fiscal year. As in the prior year, the General Fund had to rely heavily on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2011, long-term borrowing had decreased by $1.3 billion to $8.9 billion.

Within the governmental funds' total fund balance, $187 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, $27.9 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, the total fund balance of $2.7 billion is classified as committed for specific purposes and $269 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $20.3 billion. These new fund balance classifications reflect the implementation of GASB Statement No. 54 and are defined in more detail in Note 1K.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $195.3 billion in revenues, $198.0 billion in expenditures, and a net $1.6 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2011, was $10.8 billion, a $1.0 billion decrease over the prior year's restated ending fund balance of $11.8 billion. The reasons for the change in the fund balance were a net decrease in intergovernmental revenue in the Federal Fund, as a result of a reduction in economic stimulus funds received from the Federal ARRA, which exceeded the increase of tax revenue.

Personal income taxes, which account for 49.3% of tax revenues and 26.5% of total governmental fund revenues, increased by $7.8 billion from the prior fiscal year. Sales and use taxes, which account for 32.0% of tax revenues and 17.1% of total governmental fund revenues, decreased by $208 million over the prior fiscal year. Corporation taxes, which account for 9.0% of tax revenues and 4.8% of total governmental fund revenues, decreased by $34 million from the prior fiscal year. Governmental fund expenditures increased by $7.2 billion from the prior fiscal year, primarily in health and human services programs. General obligation bonds and commercial paper of $4.5 billion were issued during the 2010-11 fiscal year; however, this was $7.5 billion less than the amount issued in the prior fiscal year.

The State's major governmental funds are the General Fund, the Federal Fund, and the Transportation Fund. The General Fund ended the fiscal year with a fund deficit of $19.9 billion. The Federal Fund and the

Transportation Fund ended the fiscal year with fund balances of $122 million and $7.8 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $22.8 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of $12.0 billion, liabilities of $31.9 billion, nonspendable, restricted, and committed fund balances of $148 million, $156 million, and $30 million, respectively, leaving the General Fund with a negative unassigned fund balance of $20.3 billion. Total assets of the General Fund decreased by $849 million from the prior fiscal year, mainly because of a $627 million decrease in amounts due from other governments. During the 2010-11 fiscal year, the General Fund continued to experience cash shortages and relied on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2011, long-term borrowing from other funds had decreased by $1.3 billion to $8.9 billion. Even with this increase in short- and long-term interfund payables, the total liabilities of the General Fund decreased by $518 million (1.6%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had $93.5 billion in revenues, $90.4 billion in expenditures, and a net $3.5 billion disbursement from other financing sources (uses) for the year ended June 30, 2011. Approximately 93.3% of General Fund revenue ($87.2 billion) is derived from the State's big three taxes—personal income taxes ($50.8 billion), sales and use taxes ($27.0 billion), and corporation taxes ($9.4 billion). A total of $194 million in revenue is included in the General Fund in compliance with GASB Statement No. 54. These revenues are not considered General Fund Revenues for any budgetary purposes or for the *Budgetary/Legal Basis Annual Report*. Most of these revenues ($190 million) are from unemployment programs.

During the 2010-11 fiscal year, total General Fund revenue increased by $8.4 billion, or 9.8%. Revenue from personal income taxes and sales and use taxes increased by $7.7 billion (17.9%) and $132 million (0.5%), respectively. These increases were primarily the result of California's slowly improving economy and decreasing unemployment rate. Revenue from corporation taxes decreased by $34 million (0.4%). Revenue from licenses and permits continued to surpass that of fiscal year 2008-09, the result of a temporary increase in the assessment rate for vehicle license fees effective May 2009 through June 2011; however, this year's revenues were $50 million less than in fiscal year 2009-10.

General Fund expenditures increased by $3.2 billion, to $90.4 billion. The programs with the largest increases were health and human services, which increased by $3.7 billion, to $27.8 billion, and general government, which increased by $829 million, to $3.4 billion. The General Fund's ending fund balance for the year ended June 30, 2011, was a negative $19.9 billion, a decrease of $448 million from the prior year's restated ending fund balance of negative $19.5 billion. The increased expenditures for health and human services were mainly the result of the reduction in Federal ARRA funds. The ARRA funding, which had reduced the General Fund's share of Medical Assistance program costs, was phased out during the last half of the fiscal year and ended June 30, 2011.

Federal Fund: This fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these program areas is health and human services, which accounted for $47.9 billion (76.9%) of the total $62.3 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the fund's expenditures—$9.1 billion (14.6%), down $1.2 billion (11.8%) from the prior year—most of which were apportionments made to local educational agencies (school districts, county offices of education, and community colleges). The Federal Fund's revenues decreased by $8.6 billion (11.2%), approximately the same amount as its combined expenditures and transfers, which decreased ($8.6 billion), resulting in only a $30 million fund balance increase from the prior year's restated ending fund balance of $91 million. The decrease in Federal Fund revenues and transfers was primarily the result of the phase out of

stimulus funding from the Federal ARRA, which provided additional funding for many health and human services and education expenditures in the prior year.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues increased by 23.6% and expenditures decreased by 17.3%. Other financing sources provided net receipts of $527 million. The Transportation Fund ended the fiscal year with a $7.8 billion fund balance, an increase of $788 million over the prior year.

Proprietary Funds

Enterprise Funds: The Unemployment Programs and State Lottery Fund each saw decreases of $324 million and $23 million, respectively, in their net assets. Other State enterprise funds experienced increases in their net assets during the 2010-11 fiscal year. The most significant increase was in the California State University Fund, whose net assets increased by $575 million during the year.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were $43.0 billion as of June 30, 2011. Of this amount, current assets totaled $12.7 billion and noncurrent assets totaled $30.3 billion. The largest changes in asset account balances were a $2.7 billion increase in amount on deposit with the U.S. Treasury in the Unemployment Programs Fund and a $484 million decrease in cash and pooled investments in the Public Building Construction Fund. The total liabilities of the enterprise funds were $42.2 billion. The largest liability of the enterprise funds is for bonds payable—$22.1 billion of revenue bonds payable and $1.1 billion of general obligation bonds payable. During the 2010-11 fiscal year, the State continued to obtain loans from the U.S Department of Labor to cover deficits in the Unemployment Programs Fund. The balance due on these loans as of June 30, 2011, was $11.0 billion, an increase of $3.8 billion over the prior year.

Total net assets of the enterprise funds were $806 million as of June 30, 2011. Total net assets consisted of four segments: nonexpendable restricted net assets of $22 million, restricted expendable net assets of $3.6 billion, investment in capital assets (net of related debt) of $1.4 billion, and unrestricted net assets of negative $4.2 billion. The Unemployment Programs Fund had a deficit of $6.9 billion, a $324 million (4.9%) decrease in net assets from the prior year. The net assets of all other enterprise funds experienced small changes during the year with the exception of the California State University Fund which had an increase to net assets of $575 million.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of $33.7 billion, operating expenses of $36.6 billion, and net disbursements from other transactions of $108 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $24.7 billion in the Unemployment Programs Fund and lottery ticket sales of $3.4 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund increased by $13.4 billion from $11.3 billion in fiscal year 2009-10. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The State received more federal unemployment funds because less funding from Federal ARRA economic stimulus was available to cover unemployment and disability benefits. The largest operating expenses were distributions to beneficiaries of $25.4 billion by the Unemployment Programs Fund and personal services of $3.7 billion by the California State University Fund. The Unemployment Programs Fund expenses were partially subsidized by $617 million of Federal ARRA economic stimulus funding transferred from the Federal Fund. The ending net assets of the enterprise funds at

June 30, 2011, were $806 million—$330 million greater than the prior year's restated ending net assets of $476 million.

Internal Service Funds: Total net assets of the internal service funds were $574 million as of June 30, 2011. These net assets consist of two segments: investment in capital assets (net of related debt) of $141 million and unrestricted net assets of $433 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net assets of $4.6 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of $409.6 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of $24.0 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2011, the fiduciary funds' combined net assets were $438.2 billion, a $69.7 billion increase from prior year net assets. The increase in net assets for these funds was mainly attributable to an increase in net investment income from the prior year of $34.6 billion (82.4%).

The Economy for the Year Ending June 30, 2011

Since the recession ended in June 2009, the U.S. has seen consecutive quarterly growth in real Gross Domestic Product. The first quarter of California's 2010-11 fiscal year saw an increase in the national growth rate over the same period the year before, 2.5% versus 1.7%. For the remainder of the fiscal year, U.S. economic output continued a slow growth driven primarily by consistent growth in personal consumption. These positive national signs also started to play out at the state level during the year ending June 30, 2011.

California's economic recovery continued throughout the last fiscal year, but at a slow pace. Although employment levels remain well below their pre-recession peak, total non-farm employment grew fairly consistently. By June 2011, total non-farm employment was 1.3% higher than at the beginning of the fiscal year. The state unemployment rate as of June 2011 was 11.8%, a decrease from the July 2010 rate of 12.4%. Unfortunately, the declining unemployment rate was due in part to discouraged job seekers dropping out of the job market. The state labor force fell by 111,000 unemployed, or 0.6%, from July 2010 to June 2011. Although labor market conditions were generally improving during the second half of the fiscal year, the labor force figures point to an uneven recovery, with many California residents not benefitting from the growth.

The state housing market has remained a weakness in the State's economy. Home sales rose sharply in the last months of 2010, increasing 12% from October 2010 through January 2011, but then fell 8.8% from March through June 2011. However, on a fiscal-year basis, home sales did increase 2.3% from July 2010 to June 2011. Home prices have yet to record any significant increases, but the pace of decline slowed substantially in the 2010-11 fiscal year. Both defaults and foreclosures in California were down in fiscal year 2010-11, with defaults declining 20.2% and foreclosures declining 11.4% from July 2010 through June 2011. Residential construction permits were up 13.3% for the fiscal year, with construction employment up 1.8% for the same time period. The housing market is still sluggish, but economic indicators support the view that the market is slowly improving.

Other economic indicators point to a continued recovery in the State. State personal income showed consistent increases in each quarter of fiscal year 2010-11, increasing 5.5% over the course of the year. Additionally, consumer spending was a consistent strong element for the year. Seasonally adjusted taxable sales increased

9.8% over the course of the fiscal year. International trade and tourism contributed to California's economic recovery during the year as well, with exports of goods and commodities from California increasing by nearly 15%.

General Fund Budget Highlights

The original General Fund budget of $95.3 billion was reduced by $266 million. This decrease is mainly comprised of a reduction in funding education programs per Section 12.42 of the 2010 Budget Act that was partially offset by correctional program augmentations authorized by Assembly Bill 122, Chapter 42, Statutes of 2011. During the 2010-11 fiscal year, General Fund actual budgetary basis expenditures were $91.9 billion, $3.2 billion less than the final budgeted amounts.

Table 3 presents a summary of the General Fund original and final budgets.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2011
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 609	$ 590	$ (19)
Business and transportation	494	494	—
Resources	1,224	1,178	(46)
Health and human services	28,967	29,076	109
Correctional programs	8,665	9,567	902
Education	45,079	43,767	(1,312)
General government:			
Tax relief	446	535	89
Debt service	5,014	5,019	5
Other general government	4,833	4,839	6
Total	**$ 95,331**	**$ 95,065**	**$ (266)**

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounted to $109.0 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets, such as roads and bridges, are items that are normally immovable and can be preserved for a greater number of years than can most capital assets.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
Year ended June 30, 2011
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 16,599	$ 215	$ 16,814
State highway infrastructure	61,439	—	61,439
Collections – nondepreciable	22	2	24
Buildings and other depreciable property	23,521	10,568	34,089
Intangible assets – amortizable	649	219	868
Less: accumulated depreciation/amortization	(10,114)	(4,113)	(14,227)
Construction in progress	7,814	1,521	9,335
Intangible assets – nonamortizable	534	139	673
Total	**$ 100,464**	**$ 8,551**	**$ 109,015**

The budget authorized $9.3 billion for the State's capital outlay program in the 2010-11 fiscal year, not including funding for state highway infrastructure and K–12 schools. State highway infrastructure assets are discussed in more detail in the Required Supplementary Information that follows the notes to the financial statements. Of the $9.3 billion authorized, $224 million was from the General Fund; $6.2 billion was from lease-revenue bonds; $1.1 billion was from proceeds of various general obligation bonds; and $1.8 billion was from reimbursements, federal funds, and special funds. These amounts include reappropriations and other funds carried over from previous budgets for continuing projects.

The major capital projects authorized include:

- $200 million in lease-revenue bonds for the Department of Correction and Rehabilitation, for local youthful offender rehabilitative facilities;

- $549 million for numerous construction projects within the University of California, the California State University, and the California Community Colleges;

- $919 million for projects to replace structurally deficient court facilities; and

- $155 million from the High-Speed Passenger Train bond fund and federal funds for primary engineering and environmental review along the San Francisco-to-Anaheim section of the high-speed rail system.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Modified Approach for Infrastructure Assets

The State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that it is preserving the infrastructure at or above established condition levels. The State is responsible for maintaining 49,518 lane miles and 12,893 bridges.

During the 2010-11 fiscal year, the actual amount spent on preservation was 13.1% of the estimated budgeted amount needed to maintain the infrastructure assets at the established-condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State's bridges and roadways are better than the established condition baselines.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2011, the primary government had total bonded debt outstanding of $111.5 billion. Of this amount, $80.7 billion (72.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $80.7 billion of general obligation bonds is $7.2 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is $2.4 billion and the long-term portion is $78.3 billion. The remaining $30.8 billion (27.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.4 billion and the long-term portion is $29.4 billion.

Table 5 presents a summary of the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
Year ended June 30, 2011
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 77,217	$ 1,119	$ 78,336
Revenue bonds	7,359	22,091	29,450
Certificates of participation and commercial paper	1,328	140	1,468
Capital lease obligations	4,544	734	5,278
Net other postemployment benefits obligation	9,607	319	9,926
Proposition 98 funding guarantee	2,637	—	2,637
Mandated costs	5,741	—	5,741
Loans payable	2,122	10,958	13,080
Other noncurrent liabilities	10,351	1,842	12,193
Total noncurrent liabilities	**120,906**	**37,203**	**158,109**
Current portion of long-term obligations	3,807	2,006	5,813
Total long-term obligations	**$ 124,713**	**$ 39,209**	**$ 163,922**

During the year ended June 30, 2011, the primary government's total long-term obligations increased by $7.3 billion over the prior year's restated balance. Governmental activities net other postemployment benefits obligation had the largest increase ($2.6 billion), but other notable increases occurred in general obligation bonds payable, compensated absences, and mandated costs. During the fiscal year, the State issued $4.5 billion in new general obligation bonds for public education facilities, transportation projects, housing and emergency shelters, and various water and flood control projects. The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits.

Note 10, Long-term Obligations, and Notes 11 through 17 include additional information on the State's long-term obligations.

The State's general obligation bond credit ratings remained unchanged during the fiscal year 2010-11. The current ratings from the three credit rating agencies are as follows: Standard and Poor's – "A-", Moody's Investors Service – "A1", and Fitch – "A-".

Recent Economic Condition and Future Budgets

Recent Economic Condition

From July 1 through December 31, 2011, economic data indicated that the California economy continued to improve during the first half of fiscal year 2011-12. Since the first quarter of fiscal year 2010-11, the state has gained 351,100 non-farm jobs. Other aspects of California's labor markets are showing signs of improvement as well. By December 2011, the state's unemployment rate had dropped from a seasonally adjusted 12.5% in December 2010 to 11.1%. Nearly 213,000 California residents re-entered the labor market during the last five months of 2011, while the number of unemployed residents simultaneously fell by 154,000.

Consumer spending has shown steady increases over the past two years, rising by more than 17.5% since its low point in the second quarter of 2009. Personal income in California has already surpassed its pre-recession peak, totaling $1.67 trillion in the third quarter of 2011 following almost two years of consecutive growth on a quarterly basis.

In addition to growing consumer demand from domestic sources, international trade has also been instrumental in assisting in California's recovery. The U.S. dollar remained at its lowest level since the mid-1990s, benefitting California's export market. Industrial machinery (including computers) has posted solid gains of almost 12% through November 2011, after growing by more than 30% in 2010. Additionally, other high-technology exports, including vehicles and parts, aircrafts, pharmaceuticals, and plastics, have continued to do well in 2011. Commodity exports have also done well in recent years. Over the past two years, the State's agricultural and natural resources industries have seen double-digit growth in the production of fruit, nuts, dairy products, and fuel and oil.

Home prices have yet to rebound across the state, but the housing market has stabilized. Defaults and foreclosures have been trending downward for almost two years, despite a small uptick in defaults in the first quarter of fiscal year 2011-12. As this "shadow inventory" dwindles, demand for new home construction is expected to increase. While the number of new single-family building permits was still declining through the first six months of fiscal 2011-12, multi-family building permits have been trending upward since mid-2010. In addition, new residential permit values steadily increased throughout 2011.

Overall, California still has a long way to go before it can claim recovery from the recession. Still, most indicators point to an economy that is not only in recovery mode, but is beginning to outpace that of the rest of the United States. The labor markets are showing real signs of improvement and both incomes and consumer spending are up from their respective lows. A weak dollar, coupled with California's proximity to Asia and the State's international trade infrastructure at its ports and airports, have helped to boost exports. Housing remains soft, but even there the market is beginning to show some improvement. Recent economic conditions show that the worst is behind the state and that its recovery will continue.

California's 2011-12 Budget

California's 2011-12 Budget Act was enacted on June 30, 2011. The Budget Act appropriated $129.5 billion: $85.9 billion from the General Fund, $34.2 billion from special funds, and $9.4 billion from bond funds. The 2011 Budget Act continues to hold General Fund spending essentially flat for a third year – $85.9 billion in 2011-12, $86.6 billion in 2010-11, and $86.3 billion in 2009-10. The General Fund's available resources were projected to be $88.5 billion, resulting in a projected reserve for economic uncertainties of $543 million. General Fund revenues come predominantly from taxes, with personal income taxes expected to provide 42% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) were projected to supply approximately 89% of the General Fund's resources in the 2011-12 fiscal year.

The Budget enacted $27.2 billion in actions to solve a General Fund gap between resources and expenditures. The Budget solutions can be categorized into three major areas: expenditure-related solutions, revenue actions, and one-time loans and transfers. The $11.1 billion in expenditure-related solutions include ongoing and temporary cost or service reductions primarily in health and social services, higher education, and employee compensation, and a shift away from the General Fund for transportation debt payments toward using weight fees. The majority of proposed new revenues assume $11.8 billion in growth due to an increase in the baseline forecast of personal income and corporation tax revenues. These revenue actions would result in a total increase in revenue of $13.2 billion. The Budget also included $2.9 billion in one-time loans, transfers, and funding shifts, which include pausing for one year, building construction funded by the Trial Court Trust

Fund for a savings of $743 million; a one-year decrease in the Stage 1 Child Care program, for a savings of $369 million; and a one-time transfer of $155 million from the Gas Consumption Surcharge Fund.

The Budget introduced a major realignment of public safety programs, shifting certain state program responsibilities and revenues to local governments, primarily counties. This realignment affected both revenues and expenditures, as these programs will receive revenues and incur expenditures that previously were the stewardship of the State. In total, the realignment plan provides $5.6 billion in 2011-12 to local governments to fund various criminal justice, mental health, and social service programs. The savings to the General Fund is estimated to be $2.6 billion.

The 2011-12 Budget, recognizing the potential risk to the State's fiscal condition if revenues fell short of June 2011 estimates, included a mechanism for further reducing the current year expenditures. As of December 2011, total General Fund revenues were determined to be below forecasted amounts, and on December 13, the Director of Finance, as required, implemented the mechanism and reduced by $1 billion remaining-year funding to various appropriations.

The proposed 2012-13 Governor's Budget provides revised revenue and expenditure estimates for the 2011-12 fiscal year. If no corrective action is taken by the Governor and the Legislature, the revised gap between General Fund revenues and expenditures is expected to be $4.1 billion by the end of the 2011-12 fiscal year. State cash flow data as of January 31, 2012 indicates that this gap is a combination of actual expenditures exceeding estimates by $1.4 billion and revenues falling short of estimates by $3.8 billion. The revenue shortfall can in part be attributed to lower-than-estimated personal income and corporate taxes. Expenditures are greater than estimated because many of the cost-cutting measures included in the 2011-12 Budget have been disputed in court and have not been implemented. Court orders and delayed federal approval related to several budget-balancing cuts in the health and human services area have increased budgeted costs by nearly $2 billion. The Governor's proposed solutions are discussed further in the next section.

California's 2012-13 Budget

The Governor released his proposed 2012-13 Budget on January 5, 2012. The proposed Budget projects a $9.2 billion gap between estimated revenues and state expenditures over the next 18 months. The $9.2 billion figure is comprised of a $4.1 billion deficit carried over from the 2011-12 fiscal year and a $5.1 billion shortfall in the 2012-13 fiscal year. The Governor's Budget proposes $4.2 billion in expenditure-related solutions, $4.7 billion in net new revenues, and $1.4 billion borrowed from special funds and other sources. If enacted, the Governor's proposed Budget would eliminate the 2011-12 and 2012-13 deficit and leave the State with a surplus of $1 billion. The 2012-13 Budget continues to incorporate those solutions implemented in the prior year Budget. It also assumes passage of the Governor's proposed initiative in the November 2012 election. If approved by the voters, this initiative will temporarily increase the personal income tax on the state's wealthiest taxpayers and temporarily increase the sales tax by one-quarter percent, generating an estimated $6.8 billion to $9 billion for 2012-13.

The 2012-13 Governor's Budget projects (with all budget solutions enacted) that 2012-13 fiscal year General Fund revenues and transfers will be $95.4 billion and expenditures will be approximately $92.6 billion, with a $1.1 billion reserve. Proposed 2012-13 General Fund revenues and transfers are 7.7% more than the revised 2011-12 estimate of $88.6 billion, while 2012-13 expenditures are 7% greater than the revised 2011-12 estimate of $86.5 billion. Almost all of the Governor's proposed new revenue is derived from plans to temporarily increase the sales tax and temporarily increase personal income tax on wealthy taxpayers, both of which the Governor will submit to voters in November 2012. A portion of the new revenue, $2.5 billion, will increase the Proposition 98 minimum guarantee to schools; the remaining $4.4 billion will prevent deeper cuts

to schools, protect local public safety funding, and assist in balancing the budget. It is estimated that the temporary tax increases will allow the State to pay off $33 billion in outstanding budgetary borrowing and deferrals by fiscal year 2015-16. While additional tax revenues will mitigate the need for deeper cuts in expenditures, they will not be sufficient to close the entire budget gap. Other expenditure-related solutions include reductions of $1.4 billion for CalWorks and $1 billion in combined reductions to Medi-Cal and In-Home Supportive Services.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the administration's estimate of the budget shortfall is questionable. LAO's revenue estimate is lower than the Governor's, specifically those revenues attributable to the Governor's initiative to be included in the November 2012 general election. The LAO estimates that personal income taxes from upper-income taxpayers will be lower than the Governor's estimate, which could result in the Legislature having to pursue billions of dollars more in budget-balancing solutions. The LAO credited the Governor's proposed restructuring of the school finance system, community college categorical funding, and education mandates, but also noted that the Governor's $1.4 billion in proposed savings related to Social Services and subsidized child care has merit but may be too severe, and commented that potential savings could be less under other alternatives.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872. This report is also available on the Controller's Office website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Assets

June 30, 2011
(amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and pooled investments	$ 22,502,134	$ 2,720,440	$ 25,222,574	$ 4,818,120
Amount on deposit with U.S. Treasury	—	2,855,711	2,855,711	—
Investments	659,676	2,138,779	2,798,455	8,021,674
Restricted assets:				
Cash and pooled investments	—	2,773,418	2,773,418	91,958
Investments	—	—	—	21,328
Due from other governments	—	65,598	65,598	—
Net investment in direct financing leases	—	399,863	399,863	—
Receivables (net)	11,310,619	798,980	12,109,599	3,730,586
Internal balances	(868,285)	868,285	—	—
Due from primary government	—	—	—	204,299
Due from other governments	11,601,567	321,819	11,923,386	734,001
Prepaid items	107,513	51,252	158,765	2,621
Inventories	92,328	42,887	135,215	170,700
Recoverable power costs (net)	—	220,000	220,000	—
Other current assets	92,036	116,138	208,174	284,364
Total current assets	45,497,588	13,373,170	58,870,758	18,079,651
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,241,359	1,241,359	100,113
Investments	—	410,858	410,858	16,052
Loans receivable	—	238,597	238,597	—
Investments	—	1,479,984	1,479,984	43,816,511
Net investment in direct financing leases	—	7,018,573	7,018,573	—
Receivables (net)	1,757,892	236,649	1,994,541	1,421,223
Loans receivable	3,383,521	4,102,167	7,485,688	6,494,592
Recoverable power costs (net)	—	4,809,000	4,809,000	—
Deferred charges	180,725	944,282	1,125,007	30,033
Capital assets:				
Land	16,599,386	214,817	16,814,203	928,714
State highway infrastructure	61,438,984	—	61,438,984	—
Collections – nondepreciable	22,422	2,697	25,119	332,128
Buildings and other depreciable property	23,520,649	10,567,993	34,088,642	37,398,584
Intangible assets – amortizable	648,678	218,547	867,225	508,489
Less: accumulated depreciation/amortization	(10,114,089)	(4,112,936)	(14,227,025)	(16,751,617)
Construction in progress	7,814,016	1,521,118	9,335,134	2,959,465
Intangible assets – nonamortizable	534,092	138,633	672,725	5,090
Other noncurrent assets	—	29,224	29,224	800,255
Total noncurrent assets	105,786,276	29,061,562	134,847,838	78,059,632
Total assets	**$ 151,283,864**	**$ 42,434,732**	$ 193,718,596	**$ 96,139,283**

The notes to the financial statements are an integral part of this statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 18,924,834	$ 533,687	$ 19,458,521	$ 2,488,315
Due to component units	204,299	—	204,299	—
Due to other governments	7,718,550	180,500	7,899,050	23,688
Deferred revenue	—	242,254	242,254	1,008,219
Tax overpayments	5,683,628	—	5,683,628	—
Deposits	476,466	82	476,548	686,586
Contracts and notes payable	413	—	413	23,345
Unclaimed property liability	945,360	—	945,360	—
Advance collections	1,382,542	10,087	1,392,629	96,602
Interest payable	1,206,982	190,855	1,397,837	102,879
Securities lending obligations	—	—	—	2,168,485
Benefits payable	—	793,247	793,247	1,445,032
Current portion of long-term obligations	3,807,382	2,005,726	5,813,108	1,917,706
Other current liabilities	484,351	469,302	953,653	2,826,145
Total current liabilities	40,834,807	4,425,740	45,260,547	12,787,002
Noncurrent liabilities:				
Benefits payable	—	—	—	15,061,113
Loans payable	2,122,507	10,957,982	13,080,489	20,000
Lottery prizes and annuities	—	886,009	886,009	—
Compensated absences payable	3,720,725	165,470	3,886,195	251,495
Certificates of participation, commercial paper, and other borrowings	1,327,876	139,974	1,467,850	77,483
Capital lease obligations	4,544,008	734,158	5,278,166	2,636,929
General obligation bonds payable	77,216,976	1,118,559	78,335,535	—
Revenue bonds payable	7,358,748	22,091,010	29,449,758	18,932,217
Net other postemployment benefits obligation	9,606,931	318,793	9,925,724	5,738,777
Pollution remediation obligation	761,823	5,080	766,903	—
Other noncurrent liabilities	14,245,999	785,737	15,031,736	3,768,045
Total noncurrent liabilities	120,905,593	37,202,772	158,108,365	46,486,059
Total liabilities	**161,740,400**	**41,628,512**	203,368,912	**59,273,061**
NET ASSETS				
Investment in capital assets, net of related debt	85,460,957	1,382,957	86,843,914	12,128,546
Restricted:				
Nonexpendable – endowments	—	—	—	4,304,461
Nonexpendable	—	21,812	21,812	—
Expendable:				
Endowments and gifts	—	—	—	7,640,520
Business and transportation	10,875,076	6,558	10,881,634	1,478,961
Resources	7,257,940	1,012,430	8,270,370	—
Health and human services	4,214,342	126,738	4,341,080	—
Education	1,490,659	92,604	1,583,263	1,772,420
General government	3,274,196	511,656	3,785,852	372,088
Unemployment programs	—	1,810,426	1,810,426	—
State and consumer services	749,806	37,530	787,336	1,046,164
Correctional programs	3,802	18,003	21,805	—
Workers' compensation liability	—	—	—	5,868,816
Total expendable	27,865,821	3,615,945	31,481,766	18,178,969
Unrestricted	(123,783,314)	(4,214,494)	(127,997,808)	2,254,246
Total net assets (deficit)	**(10,456,536)**	**806,220**	(9,650,316)	**36,866,222**
Total liabilities and net assets	**$ 151,283,864**	**$ 42,434,732**	$ 193,718,596	**$ 96,139,283**

Statement of Activities

Year Ended June 30, 2011
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 13,520,557	$ 5,057,082	$ 1,344,164	$ —
Education	56,486,944	110,423	7,449,007	—
Health and human services	92,475,364	8,471,261	54,549,680	—
Resources	5,853,278	2,797,264	457,924	—
State and consumer services	1,405,019	660,196	37,509	—
Business and transportation	11,119,644	4,010,433	3,914,046	1,272,326
Correctional programs	10,295,564	14,981	96,885	—
Interest on long-term debt	4,377,064	—	—	—
Total governmental activities	195,533,434	21,121,640	67,849,215	1,272,326
Business-type activities:				
Electric Power	2,317,000	2,317,000	—	—
Water Resources	1,115,793	1,115,793	—	—
Public Building Construction	390,173	456,467	—	—
State Lottery	3,507,524	3,484,689	—	—
Unemployment Programs	25,619,138	24,678,783	—	—
California State University	5,851,355	2,505,545	1,216,808	—
High Technology Education	9,590	10,498	—	—
State Water Pollution Control Revolving	10,953	55,957	—	86,272
Housing Loan	104,667	89,224	—	—
Other enterprise programs	118,006	105,676	—	—
Total business-type activities	39,044,199	34,819,632	1,216,808	86,272
Total primary government	**$ 234,577,633**	**$ 55,941,272**	**$ 69,066,023**	**$ 1,358,598**
Component units:				
University of California	$ 24,886,919	$ 13,194,408	$ 8,480,327	$ 247,259
State Compensation Insurance Fund	1,853,853	1,071,714	—	—
California Housing Finance Agency	621,055	409,297	42,948	—
Public Employees' Benefits Funds	1,905,816	2,047,922	—	—
Nonmajor component units	2,151,621	1,033,981	624,973	7,060
Total component units	**$ 31,419,264**	**$ 17,757,322**	**$ 9,148,248**	**$ 254,319**
General revenues:				
Personal income taxes				
Sales and use taxes				
Corporation taxes				
Insurance taxes				
Other taxes				
Investment and interest				
Escheat				
Other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, July 1, 2010				
Net assets (deficit), June 30, 2011				

* Restated

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (7,119,311)		$ (7,119,311)	
(48,927,514)		(48,927,514)	
(29,454,423)		(29,454,423)	
(2,598,090)		(2,598,090)	
(707,314)		(707,314)	
(1,922,839)		(1,922,839)	
(10,183,698)		(10,183,698)	
(4,377,064)		(4,377,064)	
(105,290,253)		(105,290,253)	
	$ —	—	
	—	—	
	66,294	66,294	
	(22,835)	(22,835)	
	(940,355)	(940,355)	
	(2,129,002)	(2,129,002)	
	908	908	
	131,276	131,276	
	(15,443)	(15,443)	
	(12,330)	(12,330)	
	(2,921,487)	(2,921,487)	
(105,290,253)	**(2,921,487)**	(108,211,740)	
			$ (2,964,925)
			(782,139)
			(168,810)
			142,106
			(485,607)
			(4,259,375)
51,719,107	—	51,719,107	—
33,521,221	—	33,521,221	—
9,384,416	—	9,384,416	—
2,311,880	—	2,311,880	—
7,768,010	—	7,768,010	—
62,946	—	62,946	4,109,189
229,146	—	229,146	—
—	—	—	3,040,213
(3,251,598)	3,251,598	—	—
101,745,128	**3,251,598**	104,996,726	**7,149,402**
(3,545,125)	330,111	(3,215,014)	2,890,027
(6,911,411) *	**476,109** *	(6,435,302)	**33,976,195** *
$ (10,456,536)	**$ 806,220**	$ (9,650,316)	**$ 36,866,222**

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
ASSETS					
Cash and pooled investments	$ 913,703	$ 342,634	$ 4,034,580	$ 16,504,113	$ 21,795,030
Investments	—	—	—	659,676	659,676
Receivables (net)	9,302,494	1,034	793,013	1,094,852	11,191,393
Due from other funds	1,193,258	46,245	1,442,199	1,726,953	4,408,655
Due from other governments	382,406	11,009,726	83,257	115,887	11,591,276
Interfund receivables	47,304	—	2,608,626	4,881,517	7,537,447
Loans receivable	159,845	124,879	—	3,098,797	3,383,521
Other assets	4,643	—	57,876	29,517	92,036
Total assets	**$ 12,003,653**	**$ 11,524,518**	**$ 9,019,551**	**$ 28,111,312**	$ 60,659,034
LIABILITIES					
Accounts payable	$ 1,332,391	$ 1,376,456	$ 447,976	$ 1,667,620	$ 4,824,443
Due to other funds	10,448,561	7,330,106	92,856	131,573	18,003,096
Due to component units	198,389	—	15	5,156	203,560
Due to other governments	3,171,500	2,663,952	425,675	2,049,456	8,310,583
Interfund payables	8,918,885	—	2,421	16,526	8,937,832
Tax overpayments	5,683,628	—	—	—	5,683,628
Deposits	2,112	—	4,492	469,026	475,630
Advance collections	820,538	8,869	13,683	236,054	1,079,144
Interest payable	—	6,900	—	190,794	197,694
Unclaimed property liability	945,360	—	—	—	945,360
General obligation bonds payable	—	—	—	383,830	383,830
Other liabilities	421,530	16,681	265,201	152,547	855,959
Total liabilities	**31,942,894**	**11,402,964**	**1,252,319**	**5,302,582**	49,900,759
FUND BALANCES					
Nonspendable	148,019	—	—	39,448	187,467
Restricted	156,496	121,554	7,723,471	19,864,300	27,865,821
Committed	29,850	—	48,525	2,653,177	2,731,552
Assigned	—	—	—	268,888	268,888
Unassigned	(20,273,606)	—	(4,764)	(17,083)	(20,295,453)
Total fund balances (deficit)	**(19,939,241)**	**121,554**	**7,767,232**	**22,808,730**	10,758,275
Total liabilities and fund balances	**$ 12,003,653**	**$ 11,524,518**	**$ 9,019,551**	**$ 28,111,312**	$ 60,659,034

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

(amounts in thousands)

Total fund balances – governmental funds		**$ 10,758,275**
Amounts reported for governmental activities in the Statement of Net Assets are different from those in the Governmental Funds Balance Sheet because:		
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	16,597,328	
State highway infrastructure	61,438,984	
Collections – nondepreciable	22,422	
Buildings and other depreciable property	22,959,145	
Intangible assets – amortizable	600,644	
Less: accumulated depreciation/amortization	(9,650,127)	
Construction in progress	7,794,602	
Intangible assets – nonamortizable	534,092	
		100,297,090
• Other assets are not available to pay for current-period expenditures and, therefore, are not reported.		1,757,892
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		574,355
• Bond discounts, premiums, and deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		(350,448)
• General obligation bonds and related accrued interest totaling $79,080,213, revenue bonds totaling $7,994,249, and certificates of participation and commercial paper totaling $1,335,340 are not due and payable in the current period and, therefore, are not reported in the funds.		(88,409,802)
• Certain liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:		
Compensated absences	(3,601,307)	
Capital leases	(4,881,488)	
Net other postemployment benefits obligation	(9,385,621)	
Mandated costs	(5,741,063)	
Workers' compensation	(2,660,893)	
Loans payable	(2,032,275)	
Proposition 98 funding guarantee	(2,636,851)	
Net pension obligation	(3,002,637)	
Pollution remediation obligations	(804,231)	
Other noncurrent liabilities	(337,532)	
		(35,083,898)
Net assets of governmental activities		**$ (10,456,536)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
REVENUES					
Personal income taxes	$ 50,785,782	$ —	$ —	$ 905,371	$ 51,691,153
Sales and use taxes	27,013,675	—	327,602	6,147,528	33,488,805
Corporation taxes	9,433,416	—	—	—	9,433,416
Insurance taxes	2,076,804	—	—	235,077	2,311,881
Other taxes	566,241	—	5,467,683	1,795,738	7,829,662
Intergovernmental	—	67,849,164	—	1,311,752	69,160,916
Licenses and permits	1,335,511	—	3,352,528	2,079,398	6,767,437
Charges for services	244,448	—	423,099	341,100	1,008,647
Fees	822,308	—	19,161	8,400,018	9,241,487
Penalties	165,567	52	45,966	809,315	1,020,900
Investment and interest	38,928	1	22,198	150,989	212,116
Escheat	229,133	—	13	—	229,146
Other	768,002	—	63,204	2,110,278	2,941,484
Total revenues	**93,479,815**	**67,849,217**	**9,721,454**	**24,286,564**	195,337,050
EXPENDITURES					
Current:					
General government	3,423,934	894,403	193,545	8,485,769	12,997,651
Education	43,532,898	9,138,900	2,396	2,872,945	55,547,139
Health and human services	27,783,447	47,880,101	2,740	16,275,021	91,941,309
Resources	879,201	402,608	269,660	3,703,288	5,254,757
State and consumer services	550,020	37,529	93,994	501,993	1,183,536
Business and transportation	8,953	3,805,211	8,895,152	472,074	13,181,390
Correctional programs	9,108,430	8,769	—	136,592	9,253,791
Capital outlay	204,631	—	—	923,380	1,128,011
Debt service:					
Bond and commercial paper retirement	1,793,294	64,785	1,334	1,259,493	3,118,906
Interest and fiscal charges	3,146,866	19,509	1,186	1,187,549	4,355,110
Total expenditures	**90,431,674**	**62,251,815**	**9,460,007**	**35,818,104**	197,961,600
Excess (deficiency) of revenues over (under) expenditures	3,048,141	5,597,402	261,447	(11,531,540)	(2,624,550)
OTHER FINANCING SOURCES (USES)					
General obligation bonds and commercial paper issued	—	—	1,468,300	3,056,700	4,525,000
Premium on bonds issued	31,478	—	102	1,027	32,607
Proceeds from loans	35,538	—	—	—	35,538
Capital leases	204,631	—	—	—	204,631
Transfers in	1,176,616	—	235	7,528,378	8,705,229
Transfers out	(4,944,732)	(5,567,127)	(942,133)	(448,808)	(11,902,800)
Total other financing sources (uses)	**(3,496,469)**	**(5,567,127)**	**526,504**	**10,137,297**	1,600,205
Net change in fund balances	(448,328)	30,275	787,951	(1,394,243)	(1,024,345)
Fund balances (deficit), July 1, 2010	**(19,490,913)** *	**91,279** *	**6,979,281**	**24,202,973** *	11,782,620
Fund balances (deficit), June 30, 2011	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**	**$ 22,808,730**	$ 10,758,275

* Restated

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ (1,024,345)**
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:		
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net capital outlays exceed depreciation in the current period.		2,666,750
• Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds.		(97,143)
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		45,155
• Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The following amounts represent the difference between proceeds and repayments:		
General obligation bond	(1,564,891)	
Revenue bond	100,846	
Certificates of participation and commercial paper	6,779	
		(1,457,266)
• Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(352,442)	
Capital leases	80,164	
Net other postemployment benefits obligation	(2,497,450)	
Mandated costs	(642,979)	
Workers' compensation	(252,012)	
Loans payable	(35,538)	
Proposition 98 funding guarantee	368,842	
Net pension obligation	(343,393)	
Pollution remediation obligations	(48,619)	
Other noncurrent liabilities	45,151	
		(3,678,276)
Change in net assets of governmental activities		**$ (3,545,125)**

Statement of Net Assets

Proprietary Funds

June 30, 2011
(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction
ASSETS			
Current assets:			
Cash and pooled investments	$ —	$ 464,978	$ —
Amount on deposit with U.S. Treasury	—	—	—
Investments	—	—	—
Restricted assets:			
Cash and pooled investments	1,751,000	—	955,038
Due from other governments	—	—	—
Net investment in direct financing leases	—	—	377,575
Receivables (net)	—	80,301	170,480
Due from other funds	6,000	2,206	27,199
Due from other governments	—	19,625	—
Prepaid items	—	—	—
Inventories	—	32,984	—
Recoverable power costs (net)	220,000	—	—
Other current assets	116,000	—	—
Total current assets	2,093,000	600,094	1,530,292
Noncurrent assets:			
Restricted assets:			
Cash and pooled investments	907,000	65,689	252,374
Investments	300,000	75,312	23,849
Loans receivable	—	—	—
Investments	—	—	—
Net investment in direct financing leases	—	—	6,585,671
Receivables	—	—	—
Interfund receivables	—	91,517	—
Loans receivable	—	21,040	—
Recoverable power costs (net)	4,809,000	—	—
Deferred charges	—	871,017	62,166
Capital assets:			
Land	—	136,129	—
Collections – nondepreciable	—	—	—
Buildings and other depreciable property	—	4,776,156	—
Intangible assets – amortizable	—	105,605	—
Less: accumulated depreciation/amortization	—	(2,194,406)	—
Construction in progress	—	366,975	794,192
Intangible assets – nonamortizable	—	11,005	—
Other noncurrent assets	—	—	—
Total noncurrent assets	6,016,000	4,326,039	7,718,252
Total assets	**$ 8,109,000**	**$ 4,926,133**	**$ 9,248,544**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 279,173	$ 1,114,375	$ 405,227	$ 456,687	$ 2,720,440	$ 707,104
—	2,855,711	—	—	2,855,711	—
180,585	—	1,958,194	—	2,138,779	—
—	—	—	67,380	2,773,418	—
—	—	—	65,598	65,598	—
—	—	5,342	16,946	399,863	—
262,511	242,655	159,389	56,615	971,951	119,226
517	2,361	2,170	6,329	46,782	399,837
—	135,868	—	166,326	321,819	10,291
2,212	5,223	43,801	16	51,252	107,513
6,715	—	—	3,188	42,887	92,328
—	—	—	—	220,000	—
—	—	—	138	116,138	—
731,713	4,356,193	2,574,123	839,223	12,724,638	1,436,299
—	—	910	15,386	1,241,359	—
—	—	—	11,697	410,858	—
—	—	—	238,597	238,597	—
997,205	—	450,532	32,247	1,479,984	—
—	—	394,254	38,648	7,018,573	—
—	22,503	214,146	—	236,649	—
—	849,775	161,727	143,978	1,246,997	202,245
—	—	95,919	3,985,208	4,102,167	—
—	—	—	—	4,809,000	—
2,429	—	—	8,670	944,282	—
6,469	—	70,947	1,272	214,817	2,058
—	—	2,697	—	2,697	—
147,848	10,748	5,562,915	70,326	10,567,993	561,505
—	3,592	108,201	1,149	218,547	48,034
(67,812)	(4,620)	(1,781,417)	(64,681)	(4,112,936)	(463,963)
—	—	359,951	—	1,521,118	19,414
—	126,378	1,250	—	138,633	—
—	—	5,074	24,150	29,224	—
1,086,139	1,008,376	5,647,106	4,506,647	30,308,559	369,293
$ 1,817,852	**$ 5,364,569**	**$ 8,221,229**	**$ 5,345,870**	$ 43,033,197	**$ 1,805,592**

(continued)

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2011
(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction
LIABILITIES			
Current liabilities:			
Accounts payable	$ 174,962	$ 59,852	$ 19,450
Due to other funds	—	36,547	62,515
Due to component units	—	—	—
Due to other governments	—	111,004	11,716
Deferred revenue	—	—	—
Deposits	—	—	—
Contracts and notes payable	—	—	—
Advance collections	—	—	6,757
Interest payable	56,000	17,845	99,760
Benefits payable	—	—	—
Current portion of long-term obligations	561,000	181,947	408,191
Other current liabilities	36,000	—	—
Total current liabilities	827,962	407,195	608,389
Noncurrent liabilities:			
Interfund payables	—	—	—
Benefits payable	—	—	—
Loans payable	—	—	—
Lottery prizes and annuities	—	—	—
Compensated absences payable	—	29,052	—
Certificates of participation, commercial paper, and other borrowings	—	54,578	—
Capital lease obligations	—	—	—
General obligation bonds payable	—	362,375	—
Revenue bonds payable	7,275,000	2,346,444	8,425,490
Net other postemployment benefits obligation	3,038	97,898	—
Pollution remediation obligations	—	5,080	—
Other noncurrent liabilities	3,000	418,080	—
Total noncurrent liabilities	7,281,038	3,313,507	8,425,490
Total liabilities	**8,109,000**	**3,720,702**	**9,033,879**
NET ASSETS			
Investment in capital assets, net of related debt	—	554,854	—
Restricted:			
Nonexpendable	—	—	—
Expendable:			
Construction	—	650,577	192,140
Debt service	—	—	22,525
Security for revenue bonds	—	—	—
Lottery	—	—	—
Unemployment programs	—	—	—
Other purposes	—	—	—
Total expendable	—	650,577	214,665
Unrestricted	—	—	—
Total net assets (deficit)	**—**	**1,205,431**	**214,665**
Total liabilities and net assets	**$ 8,109,000**	**$ 4,926,133**	**$ 9,248,544**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 53,377	$ 4	$ 173,257	$ 52,146	$ 533,048	$ 207,271
277,176	222,227	—	639	599,104	146,833
—	—	—	—	—	739
—	57,758	—	22	180,500	547
—	—	242,180	74	242,254	—
—	—	—	82	82	836
—	—	—	—	—	15,437
3,137	—	—	193	10,087	303,398
—	—	—	17,250	190,855	—
—	793,247	—	—	793,247	—
465,693	—	292,926	95,969	2,005,726	17,229
—	105,054	328,095	153	469,302	15,366
799,383	1,178,290	1,036,458	166,528	5,024,205	707,656
—	—	—	—	—	139,089
—	—	—	—	—	—
—	10,957,982	—	—	10,957,982	—
886,009	—	—	—	886,009	—
6,966	43,165	83,641	2,646	165,470	123,188
—	—	85,396	—	139,974	—
—	—	734,158	—	734,158	—
—	—	—	756,184	1,118,559	—
—	—	3,348,117	695,959	22,091,010	—
20,408	64,312	128,545	4,592	318,793	221,310
—	—	—	—	5,080	—
2,070	—	255,590	106,997	785,737	39,994
915,453	11,065,459	4,635,447	1,566,378	37,202,772	523,581
1,714,836	**12,243,749**	**5,671,905**	**1,732,906**	42,226,977	**1,231,237**
86,506	136,082	599,826	5,689	1,382,957	141,295
—	—	21,812	—	21,812	—
—	—	34,268	—	876,985	—
—	—	18,955	82,757	124,237	—
—	—	—	304,195	304,195	—
103,016	—	—	—	103,016	—
—	1,810,426	—	—	1,810,426	—
—	—	39,381	357,705	397,086	—
103,016	1,810,426	92,604	744,657	3,615,945	—
(86,506)	(8,825,688)	1,835,082	2,862,618	(4,214,494)	433,060
103,016	**(6,879,180)**	**2,549,324**	**3,612,964**	806,220	**574,355**
$ 1,817,852	**$ 5,364,569**	**$ 8,221,229**	**$ 5,345,870**	$ 43,033,197	**$ 1,805,592**

(concluded)

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2011
(amounts in thousands)

	Electric Power	Water Resources	Public Building Construction
OPERATING REVENUES			
Unemployment and disability insurance	$ —	$ —	$ —
Lottery ticket sales	—	—	—
Power sales	1,443,000	193,154	—
Student tuition and fees	—	—	—
Services and sales	—	903,042	—
Investment and interest	—	—	3,864
Rent	—	—	405,832
Grants and contracts	—	—	—
Other	—	—	46,771
Total operating revenues	**1,443,000**	**1,096,196**	**456,467**
OPERATING EXPENSES			
Lottery prizes	—	—	—
Power purchases (net of recoverable power costs)	1,401,000	342,446	—
Personal services	—	232,016	—
Supplies	—	—	—
Services and charges	26,000	306,078	507
Depreciation	—	100,257	—
Scholarships & fellowships	—	—	—
Distributions to beneficiaries	—	—	—
Interest expense	—	—	383,185
Amortization of deferred charges	—	—	6,481
Other	—	—	—
Total operating expenses	**1,427,000**	**980,797**	**390,173**
Operating income (loss)	16,000	115,399	66,294
NONOPERATING REVENUES (EXPENSES)			
Donations and Grants	—	—	—
Private gifts	—	—	—
Investment and interest income	874,000	—	—
Interest expense and fiscal charges	(890,000)	(134,996)	—
Lottery payments for education	—	—	—
Other	—	19,597	—
Total nonoperating revenues (expenses)	**(16,000)**	**(115,399)**	**—**
Income (loss) before contributions and transfers	—	—	66,294
Capital contributions	—	—	—
Transfers in	—	—	—
Transfers out	—	—	(32,692)
Change in net assets	—	—	33,602
Total net assets (deficit), July 1, 2010	**—**	**1,205,431**	**181,063**
Total net assets (deficit), June 30, 2011	**$ —**	**$ 1,205,431**	**$ 214,665**

* Restated

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ —	$ 24,655,625	$ —	$ —	$ 24,655,625	$ —
3,438,578	—	—	—	3,438,578	—
—	—	—	—	1,636,154	—
—	—	1,748,535	—	1,748,535	—
—	—	383,870	111,171	1,398,083	2,398,513
—	—	—	123,777	127,641	—
—	—	—	16,266	422,098	—
—	—	96,889	—	96,889	—
—	—	174,318	4,063	225,152	—
3,438,578	**24,655,625**	**2,403,612**	**255,277**	33,748,755	**2,398,513**
1,904,788	—	—	—	1,904,788	—
—	—	—	—	1,743,446	—
52,084	161,401	3,724,891	16,674	4,187,066	805,991
15,013	—	927,759	—	942,772	7,746
360,000	84,640	—	117,711	894,936	1,438,641
5,875	378	214,757	2,650	323,917	44,181
—	—	802,409	—	802,409	—
—	25,372,719	—	—	25,372,719	—
—	—	—	81,156	464,341	62
—	—	—	2,794	9,275	—
—	—	—	2,400	2,400	—
2,337,760	**25,619,138**	**5,669,816**	**223,385**	36,648,069	**2,296,621**
1,100,818	(963,513)	(3,266,204)	31,892	(2,899,314)	101,892
—	—	1,216,808	—	1,216,808	—
—	—	30,991	—	30,991	—
46,046	23,158	46,558	4,373	994,135	863
(66,903)	—	(181,539)	(5,996)	(1,279,434)	(905)
(1,102,861)	—	—	—	(1,102,861)	—
66	—	24,384	(12,131)	31,916	(2,668)
(1,123,652)	**23,158**	**1,137,202**	**(13,754)**	(108,445)	**(2,710)**
(22,834)	(940,355)	(2,129,002)	18,138	(3,007,759)	99,182
—	—	—	86,272	86,272	—
—	616,657	2,703,982	—	3,320,639	397
—	—	—	(36,349)	(69,041)	(54,424)
(22,834)	(323,698)	574,980	68,061	330,111	45,155
125,850	**(6,555,482)**	**1,974,344** *	**3,544,903** *	476,109	**529,200**
$ 103,016	**$ (6,879,180)**	**$ 2,549,324**	**$ 3,612,964**	$ 806,220	**$ 574,355**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2011
(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ 1,546,000	$ 1,068,964
Receipts from interfund services provided	—	—
Payments to suppliers	(2,182,000)	(526,170)
Payments to employees	—	(232,016)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	250,000	(3,040)
Net cash provided by (used in) operating activities	**(386,000)**	**307,738**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Proceeds from bonds	1,923,000	—
Receipts of bond charges	862,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(2,500,000)	—
Interest paid on operating debt	(344,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**(59,000)**	**—**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of capital assets	—	(86,537)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	79,643
Principal paid on notes payable and commercial paper	—	(71,538)
Proceeds from capital leases	—	—
Payment on capital debt and leases	—	—
Retirement of general obligation bonds	—	(56,375)
Proceeds from revenue bonds	—	111,053
Retirement of revenue bonds	—	(138,655)
Interest paid	—	(144,406)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**(306,815)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(252,174)
Proceeds from maturity and sale of investments	—	252,174
Change in interfund receivables and loans receivable	—	1,571
Earnings on investments	26,000	8,944
Net cash provided by (used in) investing activities	**26,000**	**10,515**
Net increase (decrease) in cash and pooled investments	(419,000)	11,438
Cash and pooled investments at July 1, 2010	**3,077,000**	**519,229** *
Cash and pooled investments at June 30, 2011	**$ 2,658,000**	**$ 530,667**

*Restated

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds						Governmental Activities
Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 752,272	$ 3,437,077	$ 24,664,839	$ 2,145,168	$ 160,421	$ 33,774,741	$ 2,274,493
—	—	—	—	1,250	1,250	104,956
(1,679)	(148,893)	(84,640)	(1,006,616)	(146,186)	(4,096,184)	(1,437,493)
—	(39,468)	(139,133)	(3,676,731)	(16,074)	(4,103,422)	(716,285)
—	(11,228)	—	—	(3,371)	(14,599)	(72,343)
—	(2,200,195)	—	—	—	(2,200,195)	—
—	(233,596)	(25,586,345)	—	(2)	(25,819,943)	—
(330,466)	138,567	380,600	(678,790)	89,574	(153,555)	(39,223)
420,127	**942,264**	**(764,679)**	**(3,216,969)**	**85,612**	(2,611,907)	**114,105**
—	—	3,754,686	(1,047)	32,746	3,786,385	(132)
—	—	—	—	—	1,923,000	—
—	—	—	—	—	862,000	—
—	—	—	—	(202,750)	(202,750)	—
—	—	—	—	(175,155)	(2,675,155)	—
—	—	—	—	(7,081)	(351,081)	(14)
—	—	616,656	2,671,979	49	3,288,684	6,395
(32,692)	—	—	—	(38,521)	(71,213)	(101,079)
—	—	—	1,208,723	—	1,208,723	—
—	(1,118,081)	—	—	—	(1,118,081)	—
(32,692)	**(1,118,081)**	**4,371,342**	**3,879,655**	**(390,712)**	6,650,512	**(94,830)**
—	—	—	—	80	80	—
(433,845)	(49,869)	(93,104)	(596,894)	(258)	(1,260,507)	(23,835)
—	—	—	472	3,152	3,624	35,638
—	—	—	62,200	—	141,843	—
—	—	—	—	—	(71,538)	(16,222)
—	—	—	20,032	—	20,032	—
—	—	—	(398,759)	—	(398,759)	—
—	—	—	—	—	(56,375)	—
—	—	—	—	—	111,053	—
(394,490)	—	—	—	—	(533,145)	—
—	—	—	—	—	(144,406)	(952)
—	—	—	366,788	91,120	457,908	—
(828,335)	**(49,869)**	**(93,104)**	**(546,161)**	**94,094**	(1,730,190)	**(5,371)**
—	(260,723)	(2,744,881)	(6,745,147)	—	(10,002,925)	—
—	445,223	—	6,498,710	35,666	7,231,773	—
—	—	179,495	—	24,429	205,495	(109,169)
—	25,292	23,158	30,903	4,424	118,721	870
—	**209,792**	**(2,542,228)**	**(215,534)**	**64,519**	(2,446,936)	**(108,299)**
(440,900)	(15,894)	971,331	(99,009)	(146,487)	(138,521)	(94,395)
1,648,312	**295,067**	**143,044**	**505,146** *	**685,940** *	6,873,738	**801,499**
$ 1,207,412	**$ 279,173**	**$ 1,114,375**	**$ 406,137**	**$ 539,453**	$ 6,735,217	**$ 707,104**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2011 (amounts in thousands)	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ 16,000	$ 115,399
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt	—	—
Depreciation	—	100,257
Provisions and allowances	—	—
Accrual of deferred charges	—	—
Amortization of discounts	—	—
Amortization of deferred charges	—	83,383
Other	—	(3,040)
Change in assets and liabilities:		
Receivables	—	4,266
Due from other funds	—	—
Due from other governments	—	4,689
Prepaid items	—	—
Inventories	—	(9,902)
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(366,000)	—
Other current assets	13,000	—
Loans receivable	—	—
Interfund receivable	—	—
Accounts payable	(49,000)	14,456
Due to other funds	—	8,264
Due to component units	—	—
Due to other governments	—	(10,034)
Deposits	—	—
Contracts and notes payable	—	—
Advance collections	—	—
Interest payable	—	—
Other current liabilities	—	—
Interfund payables	—	—
Deferred revenue	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Capital lease obligations	—	—
Other noncurrent liabilities	—	—
Total adjustments	(402,000)	192,339
Net cash provided by (used in) operating activities	**$ (386,000)**	**$ 307,738**
Noncash investing, capital, and financing activities		
Interest accreted on annuitized prizes	$ —	$ —
Interest accreted on bonds	—	—
Unclaimed Lottery prizes directly transferred to Education Fund	—	—
Unrealized loss on investment	—	—
Capital acquisitions financed through notes payable	—	—
Contributed capital assets	—	—
Acquisition of capital asset through capital lease	—	—
Direct deposit of debt to auxiliaries	—	—
Change in accrued capital assets purchases	—	—
Gifts in-kind	—	—
Miscellaneous related to auxiliary organizations and capital assets	—	—
Amortization of bond premium and discount	—	—
Amortization of loss on refundings	—	—

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds						Governmental Activities
Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 66,294	$ 1,100,818	$ (963,513)	$ (3,266,204)	$ 31,892	$ (2,899,314)	$ 101,892
—	—	—	—	—	—	(42)
—	5,875	378	214,757	2,650	323,917	44,181
—	13,673	—	—	9,592	23,265	—
194	—	—	—	—	194	—
—	—	—	—	87	87	—
6,481	(243)	—	—	6,898	96,519	—
(5,038)	5,654	—	—	(4,393)	(6,817)	—
733	(35,915)	(4,154)	(55,319)	1,749	(88,640)	(12,322)
(12,200)	286	146,376	—	(769)	133,693	80,003
—	—	(45,766)	—	(42)	(41,119)	402
—	—	—	117	231	348	(9,053)
—	(1,900)	—	—	173	(11,629)	9,158
361,375	—	—	—	14,844	376,219	—
—	—	—	—	—	(366,000)	—
—	(596)	—	—	1,698	14,102	—
—	—	—	—	64,060	64,060	—
—	—	13,367	(161,727)	(9,062)	(157,422)	—
(111)	9,527	—	(12,990)	(17,147)	(55,265)	(15,710)
1,092	37	232,857	—	(3,550)	238,700	(85,899)
—	—	—	—	—	—	12
(1,169)	—	21,492	—	15	10,304	325
—	—	—	212	(2)	210	(5,694)
—	—	—	—	—	—	(1,061)
(2,668)	413	—	—	(85)	(2,340)	(72,814)
5,144	—	—	—	(90)	5,054	—
—	—	32,050	15,323	(4,225)	43,148	9,854
—	—	—	—	—	—	476
—	—	—	19,696	(83)	19,613	—
—	—	(219,945)	—	(2,586)	(222,531)	(6,044)
—	(156,968)	—	—	—	(156,968)	—
—	1,054	6,332	(9,322)	(345)	(2,281)	18,523
—	—	—	—	—	—	(4,893)
—	549	15,847	38,488	(5,898)	48,986	62,811
353,833	(158,554)	198,834	49,235	53,720	287,407	12,213
$ 420,127	**$ 942,264**	**$ (764,679)**	**$ (3,216,969)**	**$ 85,612**	$ (2,611,907)	**$ 114,105**

(concluded)

$ —	$ 66,903	$ —	$ —	$ —	$ 66,903	$ —
—	23,652	—	—	—	23,652	—
—	25,690	—	—	—	25,690	—
—	3,315	—	—	—	3,315	—
—	—	—	—	—	—	6,412
—	—	—	14,089	—	14,089	—
—	—	—	16,850	—	16,850	—
—	—	—	27,775	—	27,775	—
—	—	—	27,590	—	27,590	—
—	—	—	3,756	—	3,756	—
—	—	—	1,075	—	1,075	—
—	—	—	3,430	—	3,430	—
—	—	—	1,145	—	1,145	—

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2011
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust — Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 105,099	$ 2,832,498	$ 24,012,079	$ 4,251,563
Investments, at fair value:				
Short-term	—	9,435,064	—	—
Equity securities	67,810	199,712,591	—	—
Debt securities	—	82,141,888	—	—
Real estate	—	38,232,098	—	—
Other	4,453,712	76,824,884	—	—
Securities lending collateral	—	45,620,619	—	—
Total investments	4,521,522	451,967,144	—	—
Receivables (net)	13,218	3,787,609	—	479,549
Due from other funds	2	423,144	—	13,470,613
Due from other governments	62	8	—	118,459
Prepaid Items	—	—	—	27,142
Interfund receivables	—	—	—	90,232
Loans receivable	—	—	—	6,875
Other assets	157,260	934,920	—	130
Total assets	**4,797,163**	**459,945,323**	**24,012,079**	**$ 18,444,563**
LIABILITIES				
Accounts payable	14,204	1,966,332	—	$ 5,448,842
Due to other governments	—	2,356	30,207	11,083,541
Tax overpayments	—	—	—	2,995
Benefits payable	—	2,189,941	—	169,165
Deposits	157,259	—	—	800,521
Advance collections	—	—	—	86,251
Securities lending obligations	—	45,537,244	—	—
Loans payables	—	25,985	—	—
Other liabilities	519	599,699	—	853,248
Total liabilities	**171,982**	**50,321,557**	**30,207**	**$ 18,444,563**
NET ASSETS				
Held in trust for pension benefits, pool participants, and other purposes	**$ 4,625,181**	**$ 409,623,766**	**$ 23,981,872**	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2011
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 12,023,723	$ —
Plan member	—	6,699,601	—
Total contributions	—	18,723,324	—
Investment income:			
Net appreciation in fair value of investments	485,844	68,271,940	—
Interest, dividends, and other investment income	132,765	10,229,583	112,656
Less: investment expense	(8,022)	(2,723,168)	—
Net investment income	610,587	75,778,355	112,656
Receipts from depositors	1,532,447	—	28,342,052
Other	—	25,790	—
Total additions	**2,143,034**	**94,527,469**	**28,454,708**
DEDUCTIONS			
Distributions paid and payable to participants	—	25,119,671	111,096
Refunds of contributions	—	349,567	—
Administrative expense	22	491,202	1,560
Payments to and for depositors	1,123,733	592,436	27,623,778
Total deductions	**1,123,755**	**26,552,876**	**27,736,434**
Change in net assets	1,019,279	67,974,593	718,274
Net assets, July 1, 2010	**3,605,902**	**341,649,173** *	**23,263,598**
Net assets, June 30, 2011	**$ 4,625,181**	**$ 409,623,766**	**$ 23,981,872**

* Restated

The notes to the financial statements are an integral part of this statement.

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Discretely Presented Component Units Financial Statements

Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2011
(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	$ 285,350	$ 1,016,798	$ 2,620,139	$ 220,808	$ 675,025	$ 4,818,120
Investments	5,854,981	1,616,110	314,851	6,119	229,613	8,021,674
Restricted assets:						
Cash and pooled investments	—	—	—	—	91,958	91,958
Investments	—	—	—	—	21,328	21,328
Receivables (net)	2,656,059	374,146	246,277	67,014	387,090	3,730,586
Due from primary government	203,541	—	—	571	187	204,299
Due from other governments	687,488	—	—	46,513	—	734,001
Prepaid items	—	—	463	—	2,158	2,621
Inventories	170,358	—	—	—	342	170,700
Other current assets	183,839	8,690	51,972	—	39,863	284,364
Total current assets	10,041,616	3,015,744	3,233,702	341,025	1,447,564	18,079,651
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	—	—	—	—	100,113	100,113
Investments	—	—	—	—	16,052	16,052
Investments	20,746,897	17,669,997	378,608	3,730,540	1,290,469	43,816,511
Receivables (net)	952,590	151,080	—	—	317,553	1,421,223
Loans receivable	—	—	6,149,078	—	345,514	6,494,592
Deferred charges	—	—	28,689	—	1,344	30,033
Capital assets:						
Land	742,021	64,873	—	—	121,820	928,714
Collections – nondepreciable	326,508	—	—	—	5,620	332,128
Buildings and other depreciable property	34,917,390	557,565	2,008	—	1,921,621	37,398,584
Intangible assets – amortizable	334,516	155,982	—	—	17,991	508,489
Less: accumulated depreciation/amortization	(15,551,800)	(356,318)	(894)	—	(842,605)	(16,751,617)
Construction in progress	2,941,642	—	—	—	17,823	2,959,465
Intangible assets – nonamortizable	—	—	—	—	5,090	5,090
Other noncurrent assets	341,752	—	405,032	—	53,471	800,255
Total noncurrent assets	45,751,516	18,243,179	6,962,521	3,730,540	3,371,876	78,059,632
Total assets	**$ 55,793,132**	**$ 21,258,923**	**$ 10,196,223**	**$ 4,071,565**	**$ 4,819,440**	$ 96,139,283

The notes to the financial statements are an integral part of this statement.

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	$ 1,862,653	$ 48,440	$ 13,810	$ 420,306	$ 143,106	$ 2,488,315
Due to other governments	—	—	23,222	—	466	23,688
Deferred revenue	934,801	—	—	—	73,418	1,008,219
Deposits	463,547	—	220,244	—	2,795	686,586
Contracts and notes payable	—	—	—	—	23,345	23,345
Advance collections	—	69,148	26,931	—	523	96,602
Interest payable	—	—	100,679	—	2,200	102,879
Securities lending obligations	2,168,485	—	—	—	—	2,168,485
Benefits payable	—	1,445,032	—	—	—	1,445,032
Current portion of long-term obligations	1,457,064	72,258	178,326	55,041	155,017	1,917,706
Other current liabilities	2,277,909	85,433	113,110	144,961	204,732	2,826,145
Total current liabilities	9,164,459	1,720,311	676,322	620,308	605,602	12,787,002
Noncurrent liabilities:						
Benefits payable	—	12,666,163	—	2,394,950	—	15,061,113
Loans payable	—	—	—	—	20,000	20,000
Compensated absences payable	239,462	—	—	—	12,033	251,495
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	77,483	77,483
Capital lease obligations	2,273,338	—	—	—	363,591	2,636,929
Revenue bonds payable	10,653,749	—	7,768,042	—	510,426	18,932,217
Net other postemployment benefits obligation	5,257,422	312,864	9,939	10,143	148,409	5,738,777
Other noncurrent liabilities	3,029,995	268,667	261,845	—	207,538	3,768,045
Total noncurrent liabilities	21,453,966	13,247,694	8,039,826	2,405,093	1,339,480	46,486,059
Total liabilities	**30,618,425**	**14,968,005**	**8,716,148**	**3,025,401**	**1,945,082**	59,273,061
NET ASSETS						
Investment in capital assets, net of related debt	11,161,810	422,102	1,114	—	543,520	12,128,546
Restricted:						
Nonexpendable	3,475,226	—	—	—	829,235	4,304,461
Expendable:						
Endowments and gifts	7,631,367	—	—	—	9,153	7,640,520
Education	1,106,797	—	—	—	647,319	1,754,116
Indenture	—	—	339,441	—	—	339,441
Employee benefits	—	—	—	1,046,164	—	1,046,164
Workers' compensation liability	—	5,868,816	—	—	—	5,868,816
Statute	—	—	1,139,520	—	270,736	1,410,256
Other purposes	—	—	—	—	119,656	119,656
Total expendable	8,738,164	5,868,816	1,478,961	1,046,164	1,046,864	18,178,969
Unrestricted	1,799,507	—	—	—	454,739	2,254,246
Total net assets	**25,174,707**	**6,290,918**	**1,480,075**	**1,046,164**	**2,874,358**	36,866,222
Total liabilities and net assets	**$ 55,793,132**	**$ 21,258,923**	**$ 10,196,223**	**$ 4,071,565**	**$ 4,819,440**	$ 96,139,283

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2011
(amounts in thousands)

	University of California	State Compensation Insurance Fund	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
OPERATING EXPENSES						
Personal services	$ 15,763,785	$ 693,446	$ 30,447	$ —	$ 530,158	$ 17,017,836
Scholarships and fellowships	597,350	—	—	—	46,284	643,634
Supplies	2,107,881	—	—	—	8,039	2,115,920
Services and charges	280,995	86,891	25,906	1,905,816	1,311,067	3,610,675
Department of Energy laboratories	970,054	—	—	—	—	970,054
Depreciation	1,404,837	33,026	248	—	72,116	1,510,227
Distributions to beneficiaries	—	850,439	—	—	—	850,439
Interest expense and fiscal charges	572,412	—	249,253	—	46,876	868,541
Amortization of deferred charges	—	97,061	62,858	—	152	160,071
Grants provided	144,235	—	—	—	—	144,235
Other	3,045,370	92,990	252,343	—	136,929	3,527,632
Total operating expenses	**24,886,919**	**1,853,853**	**621,055**	**1,905,816**	**2,151,621**	31,419,264
PROGRAM REVENUES						
Charges for services	13,194,408	1,071,714	409,297	2,047,922	1,033,981	17,757,322
Operating grants and contributions	8,480,327	—	42,948	—	624,973	9,148,248
Capital grants and contributions	247,259	—	—	—	7,060	254,319
Total program revenues	**21,921,994**	**1,071,714**	**452,245**	**2,047,922**	**1,666,014**	27,159,889
Net revenues (expenses)	(2,964,925)	(782,139)	(168,810)	142,106	(485,607)	(4,259,375)
GENERAL REVENUES						
Investment and interest income (loss)	2,161,329	1,166,327	(4,851)	560,596	225,788	4,109,189
Other	2,443,574	121,390	99,753	42,691	332,805	3,040,213
Total general revenues	**4,604,903**	**1,287,717**	**94,902**	**603,287**	**558,593**	7,149,402
Change in net assets	1,639,978	505,578	(73,908)	745,393	72,986	2,890,027
Net assets, July 1, 2010	**23,534,729**	**5,785,340**	**1,553,983**	**300,771**	**2,801,372** *	33,976,195
Net assets, June 30, 2011	**$ 25,174,707**	**$ 6,290,918**	**$ 1,480,075**	**$ 1,046,164**	**$ 2,874,358**	$ 36,866,222

* Restated

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2011:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions; and*

GASB Statement No. 59, *Financial Instruments Omnibus.*

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a component unit in the State's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise-of-powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State in the amount of $501 million have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information on how to obtain copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information on how to obtain copies of the financial statements of GSTSC, contact

the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public agency Deferred Compensation Program, and the public employee Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. CalSTRS administers four pension and other employee benefit trust funds: the State Teachers' Retirement Fund; the Teachers' Health Benefits Fund; the Pension2 Program; and the Teachers' Deferred Compensation Fund. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851-0275.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and mostly provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (the Regents). The University of California is a component unit of the State because the State appoints a voting majority of the Regents and because expenditures for the support of various university programs and capital outlay are appropriated by the annual Budget Act. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. Copies of the University of California's financial statements may be obtained from the University of California, Financial Accounting, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

The *State Compensation Insurance Fund (SCIF)* is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, and corporations. It is a component unit of the State because the State appoints all 11 voting members of SCIF's governing board and has the authority to approve or modify SCIF's budget. Copies of SCIF's financial statements for the year ended December 31, 2010, may be obtained from the State Compensation Insurance Fund, P.O. Box 420807, San Francisco, California 94142-0807.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and has the authority to approve or modify its budget. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

The *Public Employees' Benefits Fund*, which is administered by the California Public Employees' Retirement System, accounts for contributions and premiums for public employee long-term care plans and for administration of a deferred compensation program. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

State legislation created various *nonmajor component units* to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the district agricultural associations are considered component units because they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit because its exclusion from the financial statements would be misleading because of its relationship to the primary government. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, because the primary government can impose its will on the entity, or because the entity provides a specific financial benefit to the primary government. For information on how to obtain copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The nonmajor component units are:

The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending public and private nonprofit colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities (the EdFund financial report included in this entity is as of and for the year ended September 30, 2010);

The *California School Finance Authority,* which provides loans to school and community college districts to assist them in obtaining equipment and facilities;

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations;

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2010);

The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, that provides private sources of funds for academic programs, scholarships, and faculty research;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway;

The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2011, CADA had total assets of $37.3 million, total liabilities of $21.2 million, and total net assets of $16.1 million. Total revenues for the fiscal year were $10.6 million and expenses were $9.2 million, resulting in a change in net assets of $1.4 million. Because the primary government does not

have an equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator*, a state-chartered, nonprofit market institution. The Independent System Operator provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The Independent System Operator is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the Independent System Operator, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the Independent System Operator, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobile home owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814.

The *Bay Area Toll Authority (BATA)*, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer a portion of the toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. In 2005, the California Legislature transferred toll-bridge administration responsibility from the California Department of Transportation (Caltrans) to BATA. This responsibility includes consolidation of all toll-bridge revenue under BATA's administration. BATA is a blended component unit of the Metropolitan Transportation Commission. Additional information may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Assets and the Statement of Activities) give information on all the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Assets reports all of the financial and capital resources of the government as a whole in a format where assets equal liabilities plus net assets. The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used primarily to account for services provided to the general public without direct charge.

The State reports the following major governmental funds.

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are used for transportation purposes, including highway and passenger rail construction and transportation safety programs.

Proprietary fund types focus on the determination of operating income, changes in net assets, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For its proprietary funds, the State applies all applicable GASB pronouncements. In addition, the State applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for its enterprise funds.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds.

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *Public Building Construction Fund* accounts for rental charges from the lease of public assets.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments

on a cost-reimbursement basis. The goods and services provided include: architectural services, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types.

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds.

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds.

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Assets. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

E. Deposits and Investments

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency, the University of California, or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

California State University Systems (CSU) accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a major enterprise fund, has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

G. Deferred Charges

The deferred charges account in the enterprise funds primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts. The deferred charges for the Public Buildings Construction Fund include bond counsel fees, trustee fees, rating agency fees, underwriting costs, insurance costs, and miscellaneous expenses. Bond issuance costs are amortized using the straight-line method over the term of the bonds. Amortization of bond issue costs during the facility construction period is capitalized and included in the construction costs. Deferred charges are also included in the State Lottery Fund and nonmajor enterprise funds. Bond issuance costs recorded as expenditures in governmental funds are reclassified as deferred charges in the governmental activities column of the Statement of Net Assets and are amortized over the life of the bonds.

H. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, personal property, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Assets.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system consists of 49,518 lane-miles and 12,893 bridges that are maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

I. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation, the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Assets.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums, discounts, and loss on refundings for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium, discount, or loss. Bond premiums and discounts for governmental activities are reported as other financing sources (uses) in the fund financial statements. However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium, discount, and loss on refundings.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year-end would be included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

K. Net Assets and Fund Balance

The difference between fund assets and liabilities is called “net assets” on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called “fund balance” on the governmental fund statements. The government-wide financial statements include the following categories of net assets:

Investment in capital assets, net of related debt, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result from transactions with purpose restrictions and are designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net assets* are subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net assets* are subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2011, the government-wide financial statements show restricted net assets for the primary government of $31.5 billion, of which $6.3 billion is due to enabling legislation.

Unrestricted net assets are neither restricted nor invested in capital assets, net of related debt.

In the fund financial statements, proprietary funds include categories of net assets similar to those in the government-wide statements. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Amounts previously reported as reserved and unreserved are now reported as *nonspendable*, *restricted*, *committed*, *assigned*, or *unassigned*.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balances have constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws or regulations of other governments) or by law through a constitutional provision or enabling legislation.

Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the State’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the State removes or changes the specified use by taking the same type of action. The formal action that commits a fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balances include amounts that are constrained by the State’s intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds other than the General Fund, this is the residual amount of the fund that is not classified as nonspendable and is neither restricted nor committed.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds where expenditures incurred for specific purposes exceed amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance may need to be reported.

Fiduciary fund net assets are amounts held in trust for benefits and other purposes.

L. Restatement of Beginning Fund Balances and Net Assets

1. Fund Financial Statements

The beginning fund balance of the **governmental funds** decreased by $2.0 billion as a result of a prior year overstatement of $613 million in the Unemployment Programs Administration Fund, and a reclassification of $1.4 billion in the California State University Programs Fund to the **enterprise funds**. In addition, the following changes occurred as a result of the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*: a $118 million increase in the General Fund, a **major governmental fund**, a $1 million increase in the Federal Trust Fund, a **major governmental fund**, a $50 million increase in the Business and Professions Regulatory and Licensing Fund, a **nonmajor governmental fund**, a $39 million increase in the Environmental and Natural Resources Fund, a **nonmajor governmental fund**, a $96 million decrease in the Unemployment Programs Administration Fund, a **nonmajor governmental fund**, a $1.5 billion decrease in the Financing for Local Governments and the Public Fund, a **nonmajor governmental fund**, a $720 million increase in the Health Care Related Programs Fund, a **nonmajor governmental fund**, a $585 million increase in the Hospital Construction Fund, a **nonmajor governmental fund**, a $1.6 billion increase in the Local Government Construction Fund, a **nonmajor governmental fund**, and a $1.5 billion decrease in the Other Special Revenue Programs, a **nonmajor governmental fund**.

The beginning net assets of the **enterprise funds** increased by $1.2 billion as a result of reclassifications from governmental activities to the new California State University Fund. In addition, **nonmajor enterprise funds'** beginning net assets decreased by $742 million as a result of the reclassification to the new California State University Fund, a **major enterprise fund**. This had no effect on the overall beginning net assets balance for **enterprise funds**.

The beginning net assets of the **pension and other employee benefit trust funds** increased by $723 thousand as a result of the reclassification of the State Employees' Pretax Parking Fund from governmental activities.

The beginning net assets of the **discretely presented component units—enterprise activity** increased by $1 million. The net increase is comprised of a $3 million net decrease in the California State University auxiliary organizations as a result of error corrections and a change in capitalization threshold for capital assets and a $4 million increase due to the inclusion of the State Assistance Fund for Enterprise, Business, and Industrial Development Corporation.

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities** decreased by $2.7 billion. In addition to the amounts described in the previous section for governmental funds, the restatement is comprised of a $192 million increase to adjust compensated absences payable; a $63 million increase to adjust the net pension obligation; a $50 million increase to adjust the net other postemployment benefits obligation; a $54 million decrease to

adjust pollution remediation obligations; a $19 million decrease to prepaid items; and a $964 million decrease to capital assets related to reclassifications to the new California State University Fund.

The beginning net assets of the **business-type activities** and **component units** were restated as described in the previous section for enterprise funds and discretely presented component units—enterprise activity.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2011, were legally made, and they had the effect of decreased spending authority for the Budgetary/Legal Basis reported General Fund and the Transportation Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary

control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

NOTE 3: DEPOSITS AND INVESTMENTS

The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner, as described below.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the statement of net assets. Disclosure of the following risks is included:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

A. Primary Government

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units participate in the State Treasurer's Office pooled investment program. As of June 30, 2011, the discretely presented component units accounted for approximately 3.5% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2011, totaling approximately $5.9 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office

or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2011, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $28.6 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations are posted to the State Treasurer's Office website at www.treasurer.ca.gov. As of June 30, 2011, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 245 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2011, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are to be assigned to the State's General Fund. Most of the $37.1 million in interest revenue received by the General Fund from the pooled investment program in the 2010-11 fiscal year was earned on balances in these funds.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these

financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2011, structured notes and medium-term asset-backed securities comprised approximately 3.19% of the pooled investments. A significant portion of the structured notes consisted of corporate floating-rate certificates of deposit. For the agency and corporate floating-rate securities held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The portion representing the asset-backed securities consists of mortgage backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings was short-term, asset-backed commercial paper (ABCP), which represented 1.82% of pooled investments.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury Securities	5 years	N/A	N/A	N/A
Federal Agency and Supranational Securities	5 years	N/A	N/A	N/A
Certificates of Deposit	5 years	N/A	N/A	N/A
Bankers Acceptances	180 days	N/A	N/A	N/A
Commercial Paper	180 days	30%	10% of issuer's outstanding Commercial Paper	A-2/P-2/F-2[2]
Corporate Bonds/Notes	5 years	N/A	N/A	A-/A3/A-[3]
Repurchase Agreements	1 year	N/A	N/A	N/A
Reverse Repurchase Agreements	1 year	10%[1]	N/A	N/A

[1] Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account.

[2] The State Treasurer's Office Investment Policy for the Pooled Money Investment Account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

[3] The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

N/A Neither the Government Code nor the State Treasure's Office Investment Policy for the Pooled Money Investment Account sets limits for this investment type.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2011
(amounts in thousands)

	Interest Rates[1]	Maturity	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments				
U.S. Treasury bills and notes	0.15 - 1.63	28 days - 2.96 years	$ 35,621,950	0.91
U.S. agency bonds and discount notes	0.20 - 1.18	5 days - 337 days	4,825,246	0.44
Supranational debentures and discount notes (IBRD)	1.32	299 days	300,552	0.82
Small Business Administration loans	0.53 - 1.38	0.25 year	544,255	0.25 [2]
Mortgage-backed securities [3]	3.92 - 14.25	154 days - 3.51 years	506,294	2.73
Certificates of deposit	0.11 - 0.55	1 day - 1.15 years	7,380,020	0.15
Commercial paper	0.10 - 0.37	1 day - 124 days	7,480,975	0.12
Corporate bonds and notes	0.13 - 0.30	27 days - 33 days	550,048	0.08
Total pooled investments			**57,209,340** [4]	
Other primary government investments				
U.S. Treasuries and agencies			2,203,843	2.17
Commercial paper			339,831	0.04
Guaranteed investment contracts			225,597	11.14
Corporate debt securities			780,812	1.91
Repurchase agreements			5,439	0.00 [5]
Other			1,142,914	4.19
Total other primary government investments [6]			**4,698,436**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			24,012,079	
Less: other trust and agency funds			3,286,091	
Less: discretely presented component units			2,295,603	
Total primary government investments			**$ 32,314,003**	

[1] These numbers represent high and low interest rates for each investment type.

[2] In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date.

[3] These securities are issued by U.S. government agencies such as the Federal National Mortgage Association.

[4] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include $4.0 billion of time deposits and $4.8 billion of internal loans to state funds, primarily the General Fund.

[5] These repurchase agreements of the California State University mature in one day.

[6] Total other primary government investments include approximately $9 million of cash equivalents that are included in cash and pooled investments.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3

Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk
June 30, 2011
(amounts in thousands)

	Fair Value at Year End	Percent of Total Pooled Investments
Pooled investments		
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 506,247	0.885 %
Government National Mortgage Association Pools	47	0.000

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2011
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
Pooled investments[1]		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 12,194,405
A-1/P-1/F-1	AA/Aa/AA	8,342,436
A-2/P-2/F-2	A/A/A	—
Not rated		506,247
Not applicable		36,166,252
Total pooled investments		**$ 57,209,340** [2]
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 1,872,515
A-1/P-1/F-1	AA/Aa/AA	1,001,183
A-2/P-2/F-2	A/A/A	1,146,134
A-3/P-3/F-3	BBB/Baa/BBB	4,661
Not rated		638,397
Not applicable		35,546
Total other primary government investments		**$ 4,698,436**

[1] The State Treasurer's Office uses Standard & Poor's, Moody's, and Fitch ratings services. Securities are classified by the lowest rating of the three agencies.

[2] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of $4.0 billion, for which credit risk is mitigated by collateral that the State holds for them—as discussed earlier in this note—and $4.8 billion in loans to state funds, primarily to the General Fund, for which external credit risk is not applicable because they are internal loans.

3. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk
June 30, 2011
(amounts in thousands)

Issuer	Investment Type	Reported Amount	Percent of Total Agency Investments
California State University			
Federal Home Loan Bank	U.S. agency securities	$ 274,299	11.39 %
Federal Home Loan Mortgage Corporation	U.S. agency securities	277,850	11.54
Federal National Mortgage Association	U.S. agency securities	158,806	6.59
California State Lottery			
State of California	Municipal securities	$ 226,926	19.27 %
Commonwealth of Massachusetts	Municipal securities	62,772	5.33
Golden State Tobacco Securitization Corporation			
Abbey National North America LLC	Commercial paper	$ 165,100	33.04 %
Federal Home Loan Mortgage Corporation	U.S. agency securities	203,934	40.81
Federal National Mortgage Association	U.S. agency securities	130,662	26.15
Department of Water Resources			
Federal National Mortgage Association	U.S. agency securities	$ 75,313	89.10 %

4. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2011, $3 million in deposits of the Electric Power Fund were uninsured and uncollateralized.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from pricing vendors. Many factors are considered in arriving at fair value. Real estate investments are held either directly, in separate accounts, or as a limited partnership or in a joint venture or commingled fund. Properties owned directly or in a joint venture are subject to independent third-party appraisals. Short-term investments are reported at market value, when available, or, when market value is not available, at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from pricing vendors for securities. Real estate equity investment fair values are based on either recent estimates provided by CalSTRS' contract real estate advisors or by independent appraisers. Short-term investments are reported at fair value or at cost or amortized cost, which approximates fair value. For short-term investments which are reported at fair value, the investments are valued using similar methodologies as used for debt securities. Fair value for commingled funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Private Equity partnerships are valued using their respective Net Asset Value (NAV), and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis, in conjunction with management and investment advisors. For private equity investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For both CalPERS and CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. CalPERS' management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower.

At June 30, 2011, the cash collateral had weighted average maturities of 31, 312, 367, 587, and 479 days for two externally managed portfolios, and durations of 71, 0, 32, 0, and 36 days for three internally managed portfolios.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2011, had a 45-day difference in weighted average maturity between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. CalSTRS is not permitted to pledge

or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments, including derivative instruments, of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds
June 30, 2011
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 199,780,401
Debt securities*	91,576,952
Mutual funds	10,200,315
Real estate	38,232,098
Inflation linked	8,126,757
Insurance contracts	1,591,300
Private equity	57,537,268
Securities lending collateral	45,620,619
Other	3,822,956
Total investments	**$ 456,488,666**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. In using the duration method, these agencies may make assumptions regarding the timing of cash flows or other factors that affect interest rate risk information. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 10% of the option-adjusted duration of its benchmark. All individual portfolios are required to maintain a specific level of risk relative to their benchmark. Risk exposures are monitored daily. The CalSTRS investment guidelines allow the core long-term investment grade portfolios the discretion to deviate within plus or minus 20% (0.80 to 1.20) of the weighted average effective duration of the relevant performance benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective investment guidelines. The CalSTRS investment guidelines state that the average maturity of the short-term fixed-income portfolio shall be managed such that it will not exceed 180 days.

Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk
June 30, 2011
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years)[1]		
California Public Employees' Retirement Fund [2]				
U.S. Treasuries and agencies	$ 25,235,748	7.57		
Mortgages	11,258,573	4.45		
Corporate	11,030,330	8.86		
Asset-backed	3,861,730	2.18		
Municipal	33,793	8.98		
International	5,339,734	8.65		
Structured investment vehicle	314,197	41.08		
Floating rate collateralized mortgage-backed security	651,914	0.66		
No effective duration	10,988,713	N/A		
Total	**$ 68,714,732**			
Deferred Compensation Plan Fund				
Investment contracts	$ 1,379,742	2.34		
Scholarshare Program Trust Fund				
Insurance contracts	$ 211,558	1.87		
California State Teachers' Retirement System				
Long-term fixed-income investments				
U.S. Government and agency obligations	$ 8,004,079	4.82		
Corporate	5,633,392	6.02		
High yield	1,843,672	4.07		
Debt core plus	2,863,252	4.45		
Special situations	189,252	0.19		
Debt transitions	2,836	4.46		
Commercial mortgage-backed securities	761,719	3.77		
Mortgage-backed securities	7,821,042	3.21		
Total	**$ 27,119,244**			
	0-30 days	**31-90 days**	**91-120 days**	
Short-term fixed-income investments				
Money market securities	$ 562,757	$ 362,804	$ 30,000	
Corporate credit obligations	89,954	153,350	8,958	
U.S. Government and agency obligations				
Noncallables	65,019	—	30,007	
Discount notes	40,000	159,592	—	
Callable	—	—	15,004	
U.S. Treasury	—	—	—	
Asset-backed securities	32,134	11,673	—	
Total	**$ 789,864**	**$ 687,419**	**$ 83,969**	

[1] Effective duration is described in the paragraph preceding this table.

[2] Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

121-180 days	181-365 days	366+ days	Fair Value at Year End
$ —	$ —	$ —	$ 955,561
—	—	—	252,262
48,520	55,077	—	198,623
177,155	77,430	—	454,177
9,166	15,002	130,594	169,766
44,990	171,014	25,097	241,101
7,628	—	3,386	54,821
$ 287,459	**$ 318,523**	**$ 159,077**	**$ 2,326,311**

2. Credit Risk

The CalPERS investment policies require that 80% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of AAA to BAA or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily. The CalSTRS investment guidelines require that, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the core fixed-income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc, Standard and Poor's Rating Service, or Fitch Ratings. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to 10% of the market value of the portfolio. Obligations of other issuers are held to a 5% per issuer limit (at the time of purchase) of the market value of any individual portfolio. The investment guidelines also include an allocation to opportunistic strategies, a portion of which are managed externally and allow for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer a manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk
June 30, 2011
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 55,143,535
A-1/P-1/F-1	AA/Aa/AA	7,267,664
A-2/P-2/F-2	A/A/A	13,898,855
A-3/P-3/F-3	BBB/Baa/BBB	8,973,790
B/NP/B	BB/Ba/BB	1,753,014
B/NP/B	B/B/B	1,817,266
C/NP/C	CCC/Caa/CCC	870,114
C/NP/C	CC/Ca/CC	89,609
C/NP/C	C/C/C	17,990
D/NP/D	D/D/D	10,057
Withdrawn		893
Not rated		14,655,296
Not applicable		24,065,540
Total fixed-income securities		**$ 128,563,623**

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held $1.4 billion in investment contracts of Dwight Asset-Management Company; this amount represented 17.1% of the fund's total investments as of June 30, 2011. The Scholarshare Program Trust Fund held $211 million in investment contracts of TIAA-CREF Life Insurance Company; this amount represented 4.7% of the fund's total investments as of June 30, 2011.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS' investments at June 30, 2011 were not exposed to custodial risk. As of June 30, 2011, all of CalSTRS investments, other than those of two tax-deferred defined contribution plans amounting to $312 million held in the name of TIAA-CREF, are held in CalSTRS' name and/or are not exposed to custodial credit risk. CalPERS and CalSTRS have no general policies relating to custodial credit risk.

5. Foreign Currency Risk

At June 30, 2011, CalPERS and CalSTRS held $76.2 billion and $32.6 billion, respectively, in investments, including derivative instruments, subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' policy for total global equity specifies investment in international equities be based on market capitalization. For total fixed income, 10% is targeted for investment in international securities. Real estate and alternative investments do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 15% of the plan's total exposure to international currencies. Its currency exposures are monitored daily. CalSTRS believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that opportunities also exist for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. The hedging range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign denominated assets within CalSTRS in order to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the hedging range is - 25% to 50% of the total notional value of the non-U.S. public and non-U.S. private equity portfolios.

Table 9 identifies the investments, including derivative instruments, of the fiduciary funds that are subject to foreign currency risk. Derivative instruments are included in the amounts reported under equity, fixed income, and forward contracts.

Table 9

Schedule of Investments - Fiduciary Funds - Foreign Currency Risk

June 30, 2011

(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate
Argentine Peso	$ —	$ —	$ —	$ —	$ —
Australian Dollar	32,027	5,089,106	77,897	230,765	372,034
Bermuda Dollar	—	886	—	—	—
Brazilian Real	23,059	2,258,268	—	78,547	470,889
British Pound Sterling	86,544	12,503,870	3,534	1,474,695	147,362
Canadian Dollar	49,765	6,778,385	220,908	372,619	350,086
Cayman Islands Dollar	—	3,058	—	—	—
Chilean Peso	561	186,933	—	1,067	—
Chinese Yuan	—	5,124	—	—	—
Columbian Peso	936	66,965	—	—	—
Czech Koruna	486	88,605	—	—	—
Danish Krone	5,812	815,775	—	14,468	—
Egyptian Pound	221	112,130	—	—	—
Euro	601,046	26,752,853	3,702,132	3,050,326	965,862
Guatemalan Quetzal	—	—	—	—	44,988
Guernsey Pound	—	1,849	—	—	—
Hong Kong Dollar	10,666	4,736,982	—	—	1,055,508
Hungarian Forint	88	119,970	—	—	—
Indian Rupee	9,371	1,359,527	—	11	393,237
Indonesian Rupiah	2,349	595,576	—	3,469	—
Israeli Shekel	2,909	396,928	—	—	1,912
Japanese Yen	160,047	12,982,437	110,069	1,093,783	459,185
Kazakhstan Tenge	—	—	—	—	—
Korean Won	—	16,688	—	—	—
Malaysian Ringgit	816	474,259	—	—	—
Mexican Peso	5,071	600,551	—	127,334	220,928
Moroccan Dirham	202	10,268	—	—	—
New Romanian Leu	—	—	—	—	—
New Russian Ruble	—	—	—	—	—
New Taiwan Dollar	17,311	1,719,433	—	—	—
New Turkish Lira	162	313,172	—	—	—
New Zealand Dollar	1,902	97,322	—	74,993	1,714
Norwegian Krone	5,112	785,166	—	11,368	2,159
Pakistan Rupee	81	43,281	—	—	—
Peruvian Nouveau Sol	41	14,734	—	—	—
Philippine Peso	78	75,741	—	—	—
Polish Zloty	513	237,856	—	86,516	—
Singapore Dollar	5,196	1,157,405	—	8,610	76,764
South African Rand	12,438	1,621,253	—	21,131	—
South Korean Won	4,753	3,170,600	—	—	—
Sri Lanka Rupee	3	—	—	—	—
Swedish Krona	11,447	1,893,891	—	67,535	226,486
Swiss Franc	23,649	4,733,863	—	180	20,894
Thailand Baht	1,705	423,410	—	—	—
Tunisian Dinar	—	—	—	—	—
Turkish Lira	156	237,619	—	—	—
UAE Dirham	180	16,263	—	—	—
U.S. Dollar	—	3,058	—	—	—
Total investments subject to foreign currency risk	**$ 1,076,703**	**$ 92,501,060**	**$ 4,114,540**	**$ 6,717,417**	**$ 4,810,008**

Spot Contracts	Forward Contracts	Total
$ 31	$ 10	$ 41
(37)	(2,544)	5,799,248
—	—	886
(2)	(1,354)	2,829,407
1	18,057	14,234,063
—	(6,317)	7,765,446
—	—	3,058
155	(108)	188,608
—	226	5,350
—	—	67,901
—	(1,781)	87,310
(1)	(975)	835,079
—	(20)	112,331
128	(73,879)	34,998,468
—	—	44,988
—	—	1,849
—	614	5,803,770
—	(321)	119,737
—	294	1,762,440
—	(5)	601,389
—	(499)	401,250
4	(43,682)	14,761,843
—	17	17
—	—	16,688
—	28	475,103
4	317	954,205
—	(31)	10,439
—	(394)	(394)
—	10	10
—	(247)	1,736,497
—	—	313,334
—	(1,325)	174,606
(1)	(953)	802,851
—	—	43,362
63	373	15,211
—	(77)	75,742
—	(1,800)	323,085
—	(188)	1,247,787
14	964	1,655,800
—	580	3,175,933
—	—	3
4	(1,424)	2,197,939
10	(13,453)	4,765,143
—	(344)	424,771
—	(12)	(12)
—	347	238,122
—	—	16,443
—	—	3,058
$ 373	**$ (129,896)**	**$ 109,090,205**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California (University) and its foundations, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund administered by CalPERS, and various funds that constitute 3% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of SCIF, CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University of California, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as certain securitized investments including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales, plus derivative positions to implement or hedge an investment position, are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The university participates in a securities lending program as a means to augment income. Campus foundations' cash, cash equivalents, and investments that are invested with the university and managed by the university's treasurer are included in the university's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program. The university loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the university unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The university earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and it is obligated to pay a fee and a rebate to the borrower. The university receives the net investment income. As of June 30, 2011, the university had insignificant exposure to borrower default because the amounts that it owed the borrowers were substantially the same as the amounts the borrowers owed the university. The university is indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the university or the borrower. Cash collateral is invested by the university's lending agents in short-term investment pools in the university's name, with guidelines approved by the university. As of June 30, 2011, the securities in these pools had a weighted average maturity of 17 days.

Table 10 presents the investments, including derivative instruments, of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units
June 30, 2011
(amounts in thousands)

		Fair Value
Investment Type		
Equity securities	$	5,457,292
Debt securities*		34,395,060
Investment contracts		238,662
Mutual funds		6,199,694
Real estate		702,876
Money market securities		730,843
Private equity		942,256
Mortgage loans		705,970
Externally held irrevocable trusts		265,681
Securities lending collateral		2,168,495
Invested for others		(1,780,375)
Other		1,849,111
Total investments	**$**	**51,875,565**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

Interest rate risk for the university's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the university's general endowment pool limit weighted average effective duration to the effective duration of the Citigroup Large Pension Fund Index and Lehman Aggregate Index, plus or minus 20%.

SCIF guidelines provide that 15% or more of its total portfolio shall be maintained in securities maturing in five years or less. For information about CalPERS' policies related to interest rate risk, refer to Section B, Fiduciary Funds.

Table 11 presents the interest rate risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 11

Schedule of Investments in Fixed-Income or Variable-Income Securities - Discretely Presented Component Units - Interest Rate Risk

June 30, 2011

(amounts in thousands)

Investment Type	University of California		University of California Foundations	
	Fair Value at Year End	Effective Duration [1]	Fair Value at Year End	Effective Duration [1]
U.S. Treasury bills, notes, and bonds	$ 1,351,366	1.10	$ 222,691	3.10
U.S. Treasury strips	102,041	8.00	115	—
U.S. Treasury inflation-protected securities	225,994	4.50	—	—
U.S. government-backed securities	—	—	3,071	3.70
U.S. government-backed asset-backed securities	—	—	145	2.30
Corporate bonds	5,012,475	3.40	80,190	3.60
Commercial paper	2,517,403	0.10	—	—
U.S. agencies	981,541	2.10	10,594	3.00
U.S. agencies asset-backed securities	238,328	4.50	74,020	1.70
Corporate asset-backed securities	100,994	4.50	6,510	0.20
Supranational/foreign	1,263,165	4.60	745	4.20
Corporate (foreign currency denominated)	18,060	2.10	—	—
U.S. bond funds	81,410	5.00	318,165	4.50
Non-U.S. bond funds	—	—	50,741	5.80
Money market funds	257,403	—	436,960	1.40
Mortgage loans	705,548	—	422	—
Forward contracts on a to-be-announced basis	(1,740)	—	(1,081)	—
Other	221,836	0.30	11,960	5.20
Total	**$ 13,075,824**		**$ 1,215,248**	

Investment Type	State Compensation Insurance Fund		California Housing Finance Agency	
	Fair Value at Year End	Weighted Average Maturity (in years)	Fair Value at Year End	Effective Duration [1]
U.S. Treasury and agency securities	$ 4,488,519	3.43	$ 378,607	16.91
Municipal securities	613,986	16.23	—	—
Other government	275,994	4.56	—	—
Corporate bonds	3,836,001	3.78	—	—
Special revenue	1,658,568	15.18	—	—
Mortgage-backed securities	8,402,552	23.19	—	—
Mutual funds	10,488	0.04	—	—
Other	—	—	77,599	—
Total	**$ 19,286,108**		**$ 456,206**	

[1] Effective duration is the approximate change in price of the security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time.

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Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously) because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
June 30, 2011
(amounts in thousands)

	University of California	
	Fair Value at Year End	Effective Duration
Mortgage-Backed Securities These securities are primarily issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.	$ 203,249	4.90
Collateralized Mortgage Obligations Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.	15,133	3.80
Other Asset-Backed Securities Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.	16,369	0.50
Variable-Rate Securities These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.	140,479	3.50
Callable Bonds Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.	1,150,143	3.30
Convertible Bonds Convertible bonds are fixed-income securities with coupon rates that tend to be lower than those in conventional debt issues. Consequently, an increase in the market's rate of interest causes a greater decline in the price of issues of convertible bonds than that of non-convertible bonds.	1,198	9.10

University of California Foundations	
Fair Value at Year End	**Effective Duration**
$ 63,422	1.60
2,833	2.80
6,510	0.20
—	—
458	4.20
—	—

2. Credit Risk

The investment guidelines for the university's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1, P-1, or F-1. For its general endowment pool, the University uses a fixed-income benchmark, the Barclays Capital Aggregate Index, comprising approximately 25% high grade corporate bonds and 36% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 39% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

SCIF investment guidelines provide that securities issued and/or guaranteed by the government of Canada and its political subdivisions must be rated Aa3/AA- or better by two nationally recognized rating services. No single Canadian political subdivision may exceed 0.75% of the book value of the portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the portfolio. Securities issued and/or guaranteed by a state or its political subdivision must be rated A3/A- or better by a nationally recognized rating service. Securities issued by a qualifying corporation and purchased prior to May 9, 2008, must be rated A3/A- or better by a nationally recognized rating service.

Table 13 presents the credit risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income or Variable-Income Securities – Major Discretely Presented Component Units – Credit Risk
June 30, 2011
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+	AAA	$ 14,870,491
A-1/P-1	AA2/AA	5,837,000
A-2	A2/A	6,944,642
A-3	BAA2/BBB	1,803,510
B	BA2/BB	277,382
B	B2/B	280,123
C	CC or below	59,730
Not rated		1,916,551
Total fixed-income securities		**$ 31,989,429**

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the university's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the university's short-term investment pool. The university did not have investments in a single issuer that represented 5% or more of total fair value of all investments as of June 30, 2011. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

4. Custodial Credit Risk

The university's securities are registered in its name by the custodial bank as an agent for the university. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

5. Foreign Currency Risk

The university's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the university's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 14 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 14

Schedule of Investments – University of California – Foreign Currency Risk

June 30, 2011

(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Real Estate	Investment Derivatives	Fixed-Income	Total
Australian Dollar	$ 119,606	$ 3,345	$ (892)	$ —	$ 122,059
Brazilian Real	—	—	—	2,855	2,855
British Pound Sterling	309,987	1,799	(320)	—	311,466
Canadian Dollar	143,905	—	(778)	—	143,127
Danish Krone	15,635	—	—	—	15,635
Euro	481,601	2,571	(2,919)	2,177	483,430
Hong Kong Dollar	53,939	4,399	—	—	58,338
Indonesian Rupiah	—	—	—	2,023	2,023
Israeli Shekel	7,772	—	—	—	7,772
Japanese Yen	301,507	2,820	435	—	304,762
Malaysian Ringgit	—	—	—	2,207	2,207
Mexican Peso	—	—	—	2,256	2,256
Norwegian Krone	15,039	—	—	—	15,039
Polish Zloty	—	—	—	1,515	1,515
Singapore Dollar	26,617	1,702	—	—	28,319
South African Rand	—	—	—	2,153	2,153
Swedish Krona	46,593	—	(514)	—	46,079
Swiss Franc	130,943	—	—	—	130,943
Turkish Lira	—	—	—	1,191	1,191
Other	17,166	2,599	123	1,683	21,571
Commingled currencies	1,236,531	—	—	41,200	1,277,731
Total investments subject to foreign currency risk	**$ 2,906,841**	**$ 19,235**	**$ (4,865)**	**$ 59,260**	**$ 2,980,471**

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NOTE 4: ACCOUNTS RECEIVABLE

Table 15 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

Table 15

Schedule of Accounts Receivable
June 30, 2011
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers	Unemployment Programs
Current governmental activities				
General Fund	$ 8,448,123	$ —	$ —	$ —
Federal Fund	—	—	—	—
Transportation Fund	502,001	—	—	—
Nonmajor governmental funds	71,063	—	—	—
Internal service funds	—	—	—	—
Total current governmental activities	**$ 9,021,187**	**$ —**	**$ —**	**$ —**
Amounts not scheduled for collection during the subsequent year	**$ 1,494,719**	**$ —**	**$ —**	**$ —**
Current business-type activities				
Water Resources Fund	$ —	$ —	$ —	$ —
Public Building Construction Fund	—	170,480	—	—
State Lottery Fund	—	—	262,511	—
Unemployment Programs Fund	—	—	—	242,655
California State University	—	—	—	—
Nonmajor enterprise funds	—	—	—	—
Adjustment:				
Account reclassification	—	(170,480)	—	—
Total current business-type activities	**$ —**	**$ —**	**$ 262,511**	**$ 242,655**
Amounts not scheduled for collection during the subsequent year	**$ —**	**$ —**	**$ —**	**$ 22,503**

California State University	Other	Total
$ —	$ 854,371	$ 9,302,494
—	1,034	1,034
—	291,012	793,013
—	1,023,789	1,094,852
—	119,226	119,226
$ —	**$ 2,289,432**	**$ 11,310,619**
$ —	**$ 263,173**	**$ 1,757,892**
$ —	$ 80,301	$ 80,301
—	—	170,480
—	—	262,511
—	—	242,655
159,389	—	159,389
—	56,615	56,615
—	(2,491)	(172,971)
$ 159,389	**$ 134,425**	**$ 798,980**
$ 214,146	**$ —**	**$ 236,649**

NOTE 5: RESTRICTED ASSETS

Table 16 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 16

Schedule of Restricted Assets
June 30, 2011
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,626,432	$ 391,132	$ 65,598	$ 238,597	$ 2,321,759
Construction	941,545	17,815	—	—	959,360
Operations	1,444,429	463	—	—	1,444,892
Other	2,371	1,448	—	—	3,819
Total primary government	**4,014,777**	**410,858**	**65,598**	**238,597**	**4,729,830**
Discretely presented component units					
Debt service	192,071	37,380	—	—	229,451
Total discretely presented component units	**192,071**	**37,380**	**—**	**—**	**229,451**
Total restricted assets	**$ 4,206,848**	**$ 448,238**	**$ 65,598**	**$ 238,597**	**$ 4,959,281**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

California State University (CSU) accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a major enterprise fund, has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 17 summarizes the minimum lease payments to be received by the primary government.

Table 17

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	California State University	Local Agencies	Total
2012	$ 533,166	$ 199,983	$ 26,595	$ 64,641	$ 824,385
2013	523,965	199,864	28,494	63,671	815,994
2014	525,519	199,665	29,804	63,776	818,764
2015	523,975	191,290	29,741	62,177	807,183
2016	520,255	157,741	27,121	53,892	759,009
2017-2021	2,216,888	801,448	145,369	124,990	3,288,695
2022-2026	1,493,173	561,638	150,786	63,523	2,269,120
2027-2031	1,042,217	424,790	141,118	56,823	1,664,948
2032-2036	374,519	85,747	75,694	7,513	543,473
2037-2041	—	—	25,775	—	25,775
2042-2046	—	—	17,972	—	17,972
Total minimum lease payments	**7,753,677**	**2,822,166**	**698,469**	**561,006**	**11,835,318**
Less: unearned income	3,042,494	933,071	298,873	142,444	4,416,882
Net investment in direct financing leases	**$ 4,711,183**	**$ 1,889,095**	**$ 399,596**	**$ 418,562**	**$ 7,418,436**

NOTE 7: CAPITAL ASSETS

Table 18 summarizes the capital activity for the primary government, which includes $6.7 billion in capital assets related to capital leases.

Table 18

Schedule of Changes in Capital Assets – Primary Government
June 30, 2011
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 16,310,911	$ 308,217	$ 19,742	$ 16,599,386
State highway infrastructure	60,090,779	1,407,056	58,851	61,438,984
Collections	22,488	—	66	22,422
Construction in progress	6,950,846	2,855,891	1,992,721	7,814,016
Intangible assets	480,910	75,779	22,597	534,092
Total capital assets not being depreciated/amortized	**83,855,934**	**4,646,943**	**2,093,977**	**86,408,900**
Capital assets being depreciated/amortized				
Buildings and improvements	17,937,945	629,183	130,938	18,436,190
Infrastructure	660,679	51,374	29	712,024
Equipment and other assets	4,396,272	308,401	332,238	4,372,435
Intangible assets	511,825	144,472	7,619	648,678
Total capital assets being depreciated/amortized	**23,506,721**	**1,133,430**	**470,824**	**24,169,327**
Less accumulated depreciation/amortization for:				
Buildings and improvements	5,608,501	465,898	76,531	5,997,868
Infrastructure	246,693	23,498	2	270,189
Equipment and other assets	3,349,946	394,345	255,808	3,488,483
Intangible assets	322,960	40,693	6,104	357,549
Total accumulated depreciation/amortization	**9,528,100**	**924,434**	**338,445**	**10,114,089**
Total capital assets being depreciated/amortized, net	**13,978,621**	**208,996**	**132,379**	**14,055,238**
Governmental activities, capital assets, net	**$ 97,834,555**	**$ 4,855,939**	**$ 2,226,356**	**$ 100,464,138**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 217,014	$ —	$ 2,197	$ 214,817
Collections	1,885	812	—	2,697
Construction in progress	1,595,797	567,058	641,737	1,521,118
Intangible assets	48,477	99,291	9,135	138,633
Total capital assets not being depreciated/amortized	**1,863,173**	**667,161**	**653,069**	**1,877,265**
Capital assets being depreciated/amortized				
Buildings and improvements	9,146,313	724,339	1,107	9,869,545
Infrastructure	174,427	14,083	—	188,510
Equipment and other assets	435,015	88,586	13,663	509,938
Intangible assets	209,224	10,272	949	218,547
Total capital assets being depreciated/amortized	**9,964,979**	**837,280**	**15,719**	**10,786,540**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,450,848	252,447	135	3,703,160
Infrastructure	29,507	7,133	—	36,640
Equipment and other assets	256,005	42,329	9,779	288,555
Intangible assets	63,211	22,008	638	84,581
Total accumulated depreciation/amortization	**3,799,571**	**323,917**	**10,552**	**4,112,936**
Total capital assets being depreciated/amortized, net	**6,165,408**	**513,363**	**5,167**	**6,673,604**
Business-type activities, capital assets, net	**$ 8,028,581**	**$ 1,180,524**	**$ 658,236**	**$ 8,550,869**

Table 19 summarizes the depreciation expense charged to the activities of the primary government.

Table 19

Schedule of Depreciation Expense – Primary Government
June 30, 2011
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 108,852
Education	189,271
Health and human services	68,436
Resources	54,456
State and consumer services	57,913
Business and transportation	221,300
Correctional programs	180,025
Internal service funds (charged to the activities that utilize the fund)	44,181
Total governmental activities	**924,434**
Business-type activities	**323,917**
Total primary government	**$ 1,248,351**

Table 20 summarizes the capital activity for discretely presented component units.

Table 20

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2011
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 903,938	$ 26,324	$ 1,548	$ 928,714
Collections	324,654	12,364	4,890	332,128
Construction in progress	2,864,451	113,922	18,908	2,959,465
Intangible assets	5,083	8	1	5,090
Total capital assets not being depreciated/amortized	**4,098,126**	**152,618**	**25,347**	**4,225,397**
Capital assets being depreciated/amortized				
Buildings and improvements	25,715,676	1,904,355	50,606	27,569,425
Infrastructure	593,008	39,295	295	632,008
Equipment and other depreciable assets	8,851,474 *	620,763	275,086	9,197,151
Intangible assets	426,290 *	87,264	5,065	508,489
Total capital assets being depreciated/amortized	**35,586,448**	**2,651,677**	**331,052**	**37,907,073**
Less accumulated depreciation/amortization for:				
Buildings and improvements	8,947,259	889,695	28,701	9,808,253
Infrastructure	240,576	21,700	115	262,161
Equipment and other depreciable assets	5,990,162 *	548,241	224,596	6,313,807
Intangible assets	321,948	50,327	4,879	367,396
Total accumulated depreciation/amortization	**15,499,945**	**1,509,963**	**258,291**	**16,751,617**
Total capital assets being depreciated/amortized, net	**20,086,503**	**1,141,714**	**72,761**	**21,155,456**
Capital assets, net	**$ 24,184,629**	**$ 1,294,332**	**$ 98,108**	**$ 25,380,853**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 21 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets.

Table 21

Schedule of Accounts Payable
June 30, 2011
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 1,962	$ 697,902	$ 106,277	$ 405	$ 525,845	$ 1,332,391
Federal Fund	125,730	424,212	138,853	222,131	465,530	1,376,456
Transportation Fund	—	55	2,331	412,827	32,763	447,976
Nonmajor governmental funds	61,085	509,224	393,861	22,608	680,842	1,667,620
Internal service funds	126	—	17,229	—	189,916	207,271
Adjustment:						
Fiduciary funds	9,339,285	3,874,587	—	24,545	654,703	13,893,120
Total governmental activities	**$ 9,528,188**	**$ 5,505,980**	**$ 658,551**	**$ 682,516**	**$ 2,549,599**	**$ 18,924,834**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 174,962	$ —	$ —	$ 174,962
Water Resources Fund	—	—	59,852	—	—	59,852
Public Building Construction Fund	—	—	—	—	19,450	19,450
State Lottery Fund	—	—	—	—	53,377	53,377
Unemployment Program Fund	—	4	—	—	—	4
California State University Fund	173,257	—	—	—	—	173,257
Nonmajor enterprise funds	5,453	580	56	43,071	2,986	52,146
Adjustment:						
Fiduciary funds	—	—	—	—	639	639
Total business-type activities	**$ 178,710**	**$ 584**	**$ 234,870**	**$ 43,071**	**$ 76,452**	**$ 533,687**

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures. A significant portion of the General Fund revenues are received in the latter half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants (RAWs).

To fund cash flow needs for the 2010-11 fiscal year, the State issued $6.7 billion of interim RANs through private placement on October 28, 2010. The interim RANs were repaid on November 23, 2010. In addition, the State issued $10 billion of RANs on November 23, 2010. The RANs were repaid during May and June 2011.

The California Housing Finance Agency, a discretely presented component unit, entered into an agreement with a financial institution to provide a line of credit for short-term borrowings of up to $100 million, which may increase up to $150 million. The line of credit ended on February 28, 2011, as such there was no outstanding balance at June 30, 2011.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2011, the primary government had long-term obligations totaling $163.9 billion. Of that amount, $5.8 billion is due within one year. The largest change in governmental activities long-term obligations is an increase of $2.6 billion in net other postemployment benefits obligations. Another notable increase occurred in general obligation bonds payable.

As of June 30, 2011, the pollution remediation obligations increased by $103 million, to $804 million. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2011, the State estimates that remediation costs at Stringfellow will total $378 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the responsible party for Leviathan Mine, a superfund site. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup.

Not included in Note 10 are certain state mandated programs that are still in the adjudication process. Until the Commission on State Mandates (CSM) rules on a test claim and parameters and guidelines for the claim has been established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

The other long-term obligations for governmental activities consist of $3.0 billion for net pension obligations, $171 million owed for lawsuits, the University of California unfunded pension liability of $44 million, and the California Technology Agency notes payable of $25 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest change in business-type long-term obligations is an increase of $3.8 billion for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund. The $845 million in other long-term obligations for business-type activities is mainly for advance collections.

Table 22 summarizes the changes in the long-term obligations during the year ended June 30, 2011.

Table 22

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	$ 2,109,324	$ 35,538	$ 22,355	$ 2,122,507	$ —	$ 2,122,507
Compensated absences payable	3,367,464 *	1,425,240	1,054,108	3,738,596	17,871	3,720,725
Certificates of participation and commercial paper	1,334,319	—	4,471	1,329,848	4,760	1,325,088
Accreted interest	7,800	658	2,966	5,492	2,704	2,788
Certificates of participation and commercial paper payable	1,342,119	658	7,437	1,335,340	7,464	1,327,876
Capital lease obligations	4,967,290	204,631	289,688	4,882,233	338,225	4,544,008
General obligation bonds	76,705,309	4,525,000	2,775,554	78,454,755	2,196,360	76,258,395
Accreted interest	3,792	268	4,060	—	—	—
Premiums/discounts/other	1,036,688	32,607	54,965	1,014,330	55,749	958,581
General obligation bonds payable	77,745,789	4,557,875	2,834,579	79,469,085	2,252,109	77,216,976
Revenue bonds	7,893,297	—	170,769	7,722,528	163,558	7,558,970
Accreted interest	212,568	59,153	—	271,721	—	271,721
Premiums/discounts/other	(493,926)	—	(10,769)	(483,157)	(11,214)	(471,943)
Revenue bonds payable	7,611,939	59,153	160,000	7,511,092	152,344	7,358,748
Net other postemployment benefits obligation	7,049,820 *	4,038,482	1,481,371	9,606,931	—	9,606,931
Pollution remediation obligations	755,612 *	127,802	79,139	804,275	42,452	761,823
Proposition 98 funding guarantee	3,755,693	2,958	671,800	3,086,851	450,000	2,636,851
Mandated costs	5,189,809	785,559	91,725	5,883,643	142,580	5,741,063
Workers' compensation	2,706,739 *	699,770	376,653	3,029,856	338,906	2,690,950
Other long-term obligations	2,958,816 *	570,970	287,220	3,242,566	65,431	3,177,135
Total governmental activities	**$ 119,560,414**	**$ 12,508,636**	**$ 7,356,075**	**$ 124,712,975**	**$ 3,807,382**	**$ 120,905,593**
Business-type activities						
Benefits payable	$ 2,586	$ —	$ 2,586	$ —	$ —	$ —
Loans payable	7,203,296	3,754,686	—	10,957,982	—	10,957,982
Lottery prizes and annuities	1,464,849	2,112,738	2,225,885	1,351,702	465,693	886,009
Compensated absences payable	296,147 *	125,341	127,025	294,463	128,993	165,470
Certificates of participation and commercial paper	64,518	148,510	73,054	139,974	—	139,974
Capital lease obligation	786,216 *	5,273	—	791,489	57,331	734,158
General obligation bonds	1,479,140	—	259,125	1,220,015	100,080	1,119,935
Premiums/discounts/other	(1,477)	101	—	(1,376)	—	(1,376)
General obligation bonds payable	1,477,663	101	259,125	1,218,639	100,080	1,118,559
Revenue bonds	24,454,403	1,860,675	3,090,850	23,224,228	1,193,425	22,030,803
Premiums/discounts/other	83,691	19,578	37,182	66,087	5,880	60,207
Revenue bonds payable	24,538,094	1,880,253	3,128,032	23,290,315	1,199,305	22,091,010
Net other postemployment benefits obligation	230,346 *	142,885	54,438	318,793	—	318,793
Other long-term obligations	963,597 *	44,494	162,950	845,141	54,324	790,817
Total business-type activities	**$ 37,027,312**	**$ 8,214,281**	**$ 6,033,095**	**$ 39,208,498**	**$ 2,005,726**	**$ 37,202,772**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 23 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 23

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 7,576	$ 2,065	$ 9,641
2013	7,503	2,140	9,643
2014	8,140	1,503	9,643
2015	8,565	1,075	9,640
2016	11,915	625	12,540
Total	**$ 43,699**	**$ 7,408**	**$ 51,107**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial-paper-borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper (new issuance or rollover notes) may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial-paper-borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current “Letter of Credit” agreement for the general obligation commercial paper program, effective March 11, 2010, authorizes the issuance of notes in an aggregate principal amount not to exceed $2.0 billion. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $142 million. As of June 30, 2011, the enterprise fund commercial paper program had $55 million in outstanding notes.

As of June 30, 2011, the general obligation commercial paper program had $1.3 billion in outstanding commercial paper notes for governmental activities.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2011, $85.4 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a $2.0 billion commercial paper program with tax-exempt and taxable components. The program is supported by available investments in the university’s investment pools. Commercial paper has been issued by the University to provide for interim

financing of the construction, renovation, and acquisition of certain facilities and equipment. Commercial paper is secured by a pledge of the net revenues derived from the University's ownership or operation of the projects financed—not by any encumbrance, mortgage, or other pledge of property—and does not constitute a general obligation of the University. At June 30, 2011, outstanding tax-exempt and taxable commercial paper totaled $246 million and $554 million, respectively. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total $197 million as of June 30, 2011, are various unsecured financing agreements with commercial banks totaling $56 million.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2011, was approximately $9.0 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of minimum capital lease payments for the primary government is comprised of $745,000 from internal service funds and $4.9 billion from other governmental activities. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2011, amounted to approximately $951 million.

Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $4.7 billion, that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency. This amount represents 96.5% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include $501 million in lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements. Table 24 summarizes future minimum lease commitments of the primary government.

Table 24

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases: Internal Service Funds	Capital Leases: Other Governmental Activities	Total
2012	$ 324,128	$ 765	$ 596,597	$ 921,490
2013	254,790	—	572,487	827,277
2014	180,136	—	565,052	745,188
2015	96,600	—	548,044	644,644
2016	70,969	—	528,995	599,964
2017-2021	116,173	—	2,218,303	2,334,476
2022-2026	7,551	—	1,493,173	1,500,724
2027-2031	3,871	—	1,042,217	1,046,088
2032-2036	3,236	—	374,519	377,755
2037-2041	2,725	—	—	2,725
2042-2046	663	—	—	663
2047-2051	463	—	—	463
2052-2056	126	—	—	126
2057-2061	77	—	—	77
2062-2066	33	—	—	33
2067-2071	33	—	—	33
2072-2076	33	—	—	33
2077-2081	33	—	—	33
2082-2086	33	—	—	33
2087-2091	33	—	—	33
2092-2096	33	—	—	33
2097-2101	12	—	—	12
Total minimum lease payments	**$ 1,061,751**	**765**	**7,939,387**	**$ 9,001,903**
Less: amount representing interest		20	3,057,899	
Present value of net minimum lease payments		**$ 745**	**$ 4,881,488**	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2011, was approximately $4 billion. Table 25 presents the future minimum lease commitments for the University of California and the State Compensation Insurance Fund. Operating lease expenditures for the year ended June 30, 2011, amounted to approximately $233 million for major discretely presented component units.

Table 25

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California		State Compensation Insurance Fund	
	Capital	Operating	Operating	Total
2012	$ 289,624	$ 91,946	$ 35,633	$ 417,203
2013	272,568	74,137	29,490	376,195
2014	304,238	57,634	19,256	381,128
2015	237,140	43,240	11,469	291,849
2016	199,782	30,875	3,343	234,000
2017-2021	943,709	71,707	—	1,015,416
2022-2026	714,393	9,609	—	724,002
2027-2031	551,957	4,067	—	556,024
2032-2036	183,251	4,641	—	187,892
2037-2041	—	3,692	—	3,692
Total minimum lease payments	**3,696,662**	$ **391,548**	$ **99,191**	**$ 4,187,401**
Less: amount representing interest	1,253,406			
Present value of net minimum lease payments	**$ 2,443,256**			

NOTE 14: COMMITMENTS

As of June 30, 2011, the primary government had commitments of $7.4 billion for certain highway construction projects. The primary government also had commitments of $682 million for terrorism prevention and disaster preparedness response projects, $451 million for various education programs, $425 million for services under the workforce development program, $358 million for services provided under various public health programs, $349 million for community service programs, $89 million for services provided under the welfare program, $64 million for services provided under the rehabilitation program, and $21 million for services provided under the child support program.

The primary government had other commitments, totaling $8.8 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. The $8.8 billion in commitments includes grant agreements totaling approximately $5.7 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing and other improvements, and to reimburse counties and cities for costs associated with various programs. Any constructed assets will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $8.8 billion in commitments includes $581 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to needy persons. In addition, the $8.8 billion in commitments includes $779 million in long-term contracts to purchase power. Most of these contracts qualify

for the Normal Purchase Normal Sale (NPNS) exception under GASB 53 and, therefore, are not included on the Statement of Net Assets of the Electric Power Fund nor disclosed in Note 17.

The $8.8 billion in commitments also includes contracts of $607 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Assets of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. These contracts had a fair value of $183 million as of June 30, 2011. The primary government had commitments of $409 million for California State University construction projects. The University participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2011, the University's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $32 million of electricity through March 2014 and $59 million of natural gas through June 2017. The primary government also had commitments of $2 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $681 million, of which $673 million is for gaming and telecommunication systems and services and $8 million is for a construction contract. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2011, the primary government encumbered expenditures of $803 million for the General Fund, $3.8 billion for the Transportation Fund, and $1.2 billion for the nonmajor governmental funds. See Note 2A for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2011, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Assets. The University of California had authorized construction projects totaling $3.0 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled $368 million as of June 30, 2011. The California Housing Finance Agency had no outstanding commitments to provide loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of $16.2 billion and commitments to purchase real estate equity of $6.9 billion that remained unfunded and not recorded as liabilities on the Statement of Net Assets of either the fiduciary or discretely presented component units.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2011, the State had $78.5 billion in outstanding general obligation bonds related to governmental activities and $1.2 billion related to business-type activities. In addition, $38.3 billion of general obligation bonds had been authorized but not issued, of which $37.0 billion is related to governmental activities and $1.3 billion is related to business-type activities. The total amount authorized but not issued includes $11.3 billion authorized by the applicable finance committes for issuance in the form of commercial paper

notes. Of this amount, $1.3 billion in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

Note 10, Long-term Obligations, discusses the change to general obligation bonds payable.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2011, the State had $2.7 billion of variable-rate general obligation bonds outstanding, consisting of $912 million in daily rate bonds and $1.8 billion in weekly rate bonds. The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month.

Letters of credit were issued to secure payment of principal and interest on the daily and weekly variable-rate bonds. Under these letters of credit, the credit providers pay all principal and interest payments to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. Different credit providers exist for each series of variable-rate bonds issued. The letters of credit for the variable-rate bonds issued during the 2002-03 fiscal year have expiration dates of November 23, 2011, December 1, 2011, and December 1, 2012. The letters of credit for the variable-rate bonds issued during the 2004-05 fiscal year have an expiration date of October 15, 2012. The letters of credit for the variable-rate bonds issued during the 2005-06 fiscal year have expiration dates of November 10, 2011, January 12, 2012, and November 12, 2013.

Based on the schedules provided in the Official Statements, sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: the 2015-16 through 2033-34 fiscal years and the 2039-40 fiscal year. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

In 2004 voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2011, the State had $7.2 billion of Economic Recovery Bonds outstanding. Of the $7.2 billion outstanding, bonds totaling $625 million are variable rate bonds, consisting of $500 million in daily rate bonds and $125 million in weekly rate bonds. The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement, payment of principal, interest, and purchase price upon tender, for a portion of these bonds, is secured by a direct-pay letter of credit. The State reimburses its credit providers for any amounts paid, plus interest. Different credit providers exist for each series of variable-rate bonds issued. The expiration date for these letters of credit is June 15, 2012.

C. Mandatory Tender Bonds

Of the $7.2 billion in outstanding Economic Recovery Bonds, $500 million have interest-reset dates of July 1, 2014. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 26 because the statement presumes a successful remarketing at an interest rate of 4.0% per year. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until the bonds are successfully remarketed.

As of June 30, 2011, the State had $1.0 billion in outstanding various-purpose general obligation bonds with interest reset dates beginning April 2, 2012. On each reset date, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount thereof, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that date. If the bonds are not redeemed, the interest rate mode for the bonds will be adjusted to a new mode, and the bonds will be remarketed by a remarketing agent appointed by the State. The State has not obtained any credit enhancement with respect to the mandatory tender of these bonds on the first mandatory tender date and does not expect to do so. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset dates, and assumes full redemption of the bonds beginning on April 1, 2029. In the event of a failed remarketing, funding for the payment of principal and interest will be provided by the General Fund.

D. Build America Bonds

In November 2010, the State issued taxable various-purpose general obligation bonds as “Build America Bonds” in the amount of $3.0 billion. As of June 30, 2011, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (ARRA). While the bonds mature between 2020 and 2040, two series are part of the mandatory tender bonds previously described that have reset dates of April 2, 2012, and April 1, 2013. Pursuant to the ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the ARRA. The cash subsidy payments received are available for use by the General Fund.

E. Debt Service Requirements

Table 26 shows the debt service requirements for all general obligation bonds as of June 30, 2011. The estimated debt service requirements for the $2.7 billion variable-rate general obligation bonds and the $625 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2011. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

Table 26

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	$ 2,196,360	$ 4,095,748	$ 6,292,108	$ 100,080	$ 51,421	$ 151,501
2013	2,075,785	3,987,359	6,063,144	82,195	47,815	130,010
2014	2,757,880	3,883,443	6,641,323	104,110	44,406	148,516
2015	2,894,975	3,748,477	6,643,452	77,565	41,129	118,694
2016	2,878,125	3,603,947	6,482,072	75,620	38,115	113,735
2017-2021	14,391,665	16,046,531	30,438,196	234,665	152,216	386,881
2022-2026	12,361,100	12,850,414	25,211,514	86,555	120,048	206,603
2027-2031	12,026,305	10,139,984	22,166,289	191,620	89,636	281,256
2032-2036	14,024,350	6,765,468	20,789,818	176,040	37,540	213,580
2037-2041	12,848,210	2,341,240	15,189,450	90,840	10,163	101,003
2042-2046	—	—	—	725	38	763
Total	**$ 78,454,755**	**$ 67,462,611**	**$ 145,917,366**	**$ 1,220,015**	**$ 632,527**	**$ 1,852,542**

F. General Obligation Bond Defeasances

1. Current Year

The primary government did not issue any refunding bonds in the 2010-11 fiscal year.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2011, the outstanding balance of general obligation bonds defeased in prior years was approximately $2.8 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $394 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation related solar energy facilities located throughout the state. Both of these bonds fund activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on these bonds. Total principal and interest remaining on the bonds is $20.0 billion, payable through 2047. The annual principal and interest payments on these bonds are expected to require all of the Tobacco Settlement Revenue and interest. Principal and interest paid in the current year and total Tobacco Settlement Revenue and interest were $375 million and $362 million, respectively. These bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, public building construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the university.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to a common index, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets.

Table 27 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 27

Schedule of Revenue Bonds Outstanding
June 30, 2011
(amounts in thousands)

Primary government		
Governmental activities		
Transportation Fund	$	380,113
Nonmajor governmental funds		
Golden State Tobacco Securitization Corporation Fund		6,771,714
Building authorities		359,265
Total governmental activities		**7,511,092**
Business-type activities		
Electric Power Fund		7,836,000
Water Resources Fund		2,462,594
Public Building Construction Fund		8,833,681
California State University Fund		3,415,092
Nonmajor enterprise funds		742,948
Total business-type activities		**23,290,315**
Total primary government		**30,801,407**
Discretely presented component units		
University of California		10,937,240
California Housing Finance Agency		7,942,003
Nonmajor component units		527,962
Total discretely presented component units		**19,407,205**
Total	**$**	**50,208,612**

Table 28 shows the debt service requirements for fixed- and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 27.

Table 28

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

Year Ending June 30	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-type Activities			
	Principal	Interest	Principal	Interest*	Principal	Interest*
2012	$ 163,558	$ 347,921	$ 1,193,425	$ 1,109,741	$ 434,241	$ 827,681
2013	149,048	353,955	1,265,555	1,051,679	504,374	801,666
2014	158,403	360,647	1,316,655	991,239	470,184	786,763
2015	132,858	352,917	1,361,490	928,516	492,300	762,411
2016	70,984	346,388	1,387,120	864,724	509,738	736,484
2017-2021	724,262	1,662,575	7,510,113	3,302,673	2,621,468	3,311,795
2022-2026	679,060	1,667,543	4,180,730	1,870,518	2,957,488	2,673,745
2027-2031	770,913	1,500,231	2,953,545	1,001,125	3,266,218	2,011,945
2032-2036	745,010	1,244,322	1,622,745	336,585	3,210,415	1,330,168
2037-2041	1,891,609	948,766	392,810	56,231	2,192,245	685,760
2042-2046	1,812,000	783,185	40,040	2,495	1,837,525	304,724
2047-2051	696,544	3,322,012	—	—	472,290	89,257
2052-2056	—	—	—	—	222,470	957
Total	**$ 7,994,249**	**$ 12,890,462**	**$ 23,224,228**	**$ 11,515,526**	**$ 19,190,956**	**$ 14,323,356**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2011.

D. Revenue Bond Defeasances

1. Current Year—Governmental Activities

The primary government did not issue any refunding bonds in the 2010-11 fiscal year.

2. Current Year—Business-type Activities

In November 2010, the primary government issued $98 million in water system revenue bonds. The bond proceeds were used to current-refund $30 million of outstanding water system revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $3 million over the life of the bonds and will result in an economic gain of $2 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

In October 2010, the primary goverment issued $1.8 billion in fixed-rate power supply revenue bonds to current-refund $1.1 billion of outstanding variable-rate bonds and advance-refund $813 million of outstanding fixed-rate bonds. The refunding reduced the amount of outstanding variable-rate debt and reduced the risk

and dependency from credit support providers and interest-rate swap counterparties. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. The refunding decreased overall debt service payments by $76 million and resulted in an economic gain of $25 million. The power supply revenue bonds are reported in the Electric Power Fund.

3. Current Year—Discretely Presented Component Units

In July 2010, the University of California issued $144 million in general revenue bonds. A portion of the proceeds were used to refund $146 million in outstanding revenue bonds. The bonds mature at various dates through 2024 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expenses over the term of the bonds.

4. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2011, the outstanding balance of revenue bonds defeased in prior years was $4.2 billion for governmental activities and $3.7 billion for business-type activities.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2011, the outstanding balance of University of California revenue bonds defeased in prior years was $754 million.

NOTE 17: DERIVATIVE FINANCIAL INSTRUMENTS

Certain primary government business-type activities and discretely presented component units use derivatives—including futures, forward contracts, options and interest rate swap contracts—as a substitute for investment in equity and fixed-income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable-rate bonds to changes in market interest rates.

A futures contract is an agreement between two parties to buy and sell a security, financial index, interest rate, foreign currency, or other financial instrument at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered into to offset one's obligation. The resources or obligations acquired through these contracts are usually terminated by entering into offsetting contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. One example of a forward contract is a foreign currency exchange contract used to hedge against foreign currency exchange rate risks on non-U.S. dollar-denominated investment securities and to increase or decrease exposure to various foreign currencies. Another example is when forward contracts are used to purchase certain mortgage-backed securities on a to-be-announced (TBA) basis when the price cannot be determined until the coupon rate is known. A forward contract on a TBA basis is a commitment to purchase a mortgage-backed pass-through pooled security when issued by the Federal National Mortgage Association (Fannie Mae),

Federal Home Loan Mortgage Corporation (Freddie Mac), and Government National Mortgage Association (Ginnie Mae).

An option contract gives the State the right, but not the obligation, to buy or sell a financial instrument or commodity at a fixed price during a specified period.

The State considers its futures, forward contracts, and options to be investment derivatives. A swap is a contractual agreement to exhange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. The State holds interest rate swaps as both investment derivatives and hedging derivatives.

Table 29 shows debt service requirements as of June 30, 2011, for variable-rate debt included in Table 28, as well as net swap payments, assuming that current interest rates remain the same for their terms. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 29

Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds
(amounts in thousands)

	Discretely Presented Component Units			
Year Ending June 30	Principal	Interest*	Interest-Rate* Swap Net	Total
2012	$ 36,253	$ 8,181	$ 114,719	$ 159,153
2013	40,006	6,647	106,622	153,275
2014	49,430	6,488	98,913	154,831
2015	56,251	6,326	91,851	154,428
2016	65,274	6,156	85,319	156,749
2017-2021	374,190	28,004	346,550	748,744
2022-2026	454,045	22,918	247,228	724,191
2027-2031	689,524	17,368	167,578	874,470
2032-2036	604,131	10,208	83,441	697,780
2037-2041	242,069	5,315	26,822	274,206
2042-2046	92,497	2,059	8,053	102,609
2047-2051	485	5	18	508
Total	**$ 2,704,155**	**$ 119,675**	**$ 1,377,114**	**$ 4,200,944**

* Based on rates in effect on June 30, 2011.

A. Primary Government

The Department of Water Resources (DWR) is party to interest-rate swap agreements and natural gas hedging positions that are considered to be derivatives. Table 30 summarizes the fair values, classification, and notional amounts outstanding for the DWR's natural gas hedges accounted for as derivative financial instruments.

Table 30

Schedule of Fair Values and Notional Amounts - Electric Power Fund
June 30, 2011
(dollars in thousands)

	Classification	Fair Value	Notional Amount (in MMBtu)[1]
Effective hedges			
Natural gas swaps	Other current assets	$ 3,000	7,485,000
	Other current liabilities	(30,000)	16,925,000
Total effective hedges		**$ (27,000)**	
Investment hedges			
Natural gas swaps	Other current assets	$ 2,000	10,982,500
	Other current liabilities	(3,000)	3,250,000
	Other noncurrent liabilities	(3,000)	990,000
Natural gas options	Other current assets	2,000	33,937,500
Total investment hedges		**$ (2,000)**	

[1] Millions of British thermal units.

1. Natural Gas Swaps and Options

Objective: The DWR enters into forward gas futures and options contracts to hedge the cost of natural gas. Most of the DWR's forward gas futures are being treated as normal purchase normal sale (NPNS) contracts and are therefore not required to be recorded prior to settlement. Forward gas futures not qualifying as NPNS are recorded on the statement of net assets at fair value. All natural gas options are treated as derivatives and are classified as investment derivatives. For the DWR's gas hedging contracts that are effective hedges, unrealized gains and losses are deferred on the statement of net assets as other current assets or liabilities for contracts with fewer than 12 months remaining until expiration, or as other noncurrent assets or liabilities for contracts with more than 12 months remaining until expiration. The deferred amount recorded on the statement of net assets reflects the deferred inflow or outflow associated with the derivative financial instruments. Changes in fair value of derivatives that are classified as investment derivatives are included as investment and interest income on the statement of revenues, expenses, and changes in fund net assets.

Fair Value: The reported fair values from Table 30 above were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR's open natural gas hedge positions at June 30, 2011 are with nine different counterparties, all of which have credit ratings of at least A-/Baa1. At June 30, 2011, the DWR has credit risk exposure to three counterparties totaling $2 million, representing transactions with market values that are in the DWR's favor. There is no substantial credit exposure to the remaining six counterparties, as the decrease in natural gas prices has resulted in valuations in the counterparties' favor. The remaining gas hedge positions have been entered into through the DWR's brokerage accounts and the associated clearing accounts have collateral requirements that limit the DWR's counterparty credit risk.

Termination Risk: With regards to gas hedge agreements, the DWR or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, the DWR or the counterparty would owe the other a payment equal to the fair value of the open positions.

2. Interest-Rate Swaps

Termination of Interest Rate Swaps: As part of the Series 2010 M refunding transaction in October 2010, the DWR terminated all remaining interest rate swaps for $102 million to settle the negative fair market value of the swap agreements. The interest rate swap derivative values were removed from the statements of net assets and the loss incurred on termination is being deferred and amortized as part of the refunding transaction.

B. Fiduciary Funds

Under the State Constitution and statutory provisions governing the investment authority of the California Public Employees' Retirement System (CalPERS), CalPERS holds investments in swaps, options, futures, rights, and warrants and enters into forward foreign currency exchange. The fair value of options, futures, rights, and warrants is determined based upon quoted market prices. The fair value of derivative investments that are not exchange traded, such as swaps, is determined by an external pricing service using various proprietary methods. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

CalPERS uses forward foreign currency exchange contracts primarily to hedge against changes in exchange rates related to foreign securities. Derivatives with positive fair values are recorded as either investments or receivables (net) in the statement of fiduciary net assets. Derivatives with negative fair values are recorded as other liabilities in the statement of fiduciary net assets. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the statement of changes in fiduciary net assets.

The California State Teachers' Retirement System (CalSTRS) also holds investments in derivative instruments. CalSTRS' investments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using methods employed for debt securities. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day. As a result, the derivative instruments themselves have no fair value at June 30, 2011, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and are recognized as net appreciation or depreciation in fair value of investments as they are incurred.

CalSTRS holds foreign currency forwards, which are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2011. Derivatives with positive fair values are recorded as investments in the statement of fiduciary net assets. Derivatives with negative fair values are recorded as accounts payable in the statement of fiduciary net assets. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the statement of changes in fiduciary net assets.

All fiduciary fund derivative instruments are included in the investments disclosed in Note 3, Deposits and Investments. Table 31 presents the net appreciation (depreciation) in fair value, the fair values, and notional amounts of derivative instruments outstanding of these fiduciary funds.

Table 31

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - Fiduciary Funds
June 30, 2011
(dollars in thousands)

Investment Type	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value	Notional Amount
Credit default swaps	$ 605	Debt securities	$ 75	$ 29,936
Credit default swaps bought	(3,304)	Debt securities	6,218	44,150
Credit default swaps written	2,307	Debt securities	1,184	77,150
Equity options bought	(8,427)	Equity securities	1,960	1,462,500 shares
Equity options written	7,286	Equity securities	(2,354)	(120,000) shares
Fixed-income futures long	910	Investment sales/purchases	—	195,643
Fixed-income futures short	(8,336)	Investment sales/purchases	—	(785,991)
Fixed-income options written	11,029	Equity securities	(4,568)	(496,183)
Foreign currency options bought	(3,238)	Equity securities	1,488	275,954
Foreign currency options written	1,210	Equity securities	(51)	(5,219)
Foreign currency forwards	(115,428)	Foreign currency contracts	(1,224)	7,105,386
Futures options bought	(5,475)	Debt securities	12,120 [1]	786,625
Futures options written	2,409	Debt securities	(70)	(46,540)
Futures options written	1,195	Equity securities	—	—
Futures (domestic and foreign)	84,232	Futures	—	(751,635)
Foreign exchange forwards	(1,186,921)	Investment sales/purchases	(128,672)	28,140,569
Index futures long	1,453,941	Investment sales/purchases	—	31,587
Index futures short	30	Investment sales/purchases	—	—
Interest-rate swaps	(5,803)	Debt securities	(9,613)	429,153
Pay-fixed interest-rate swaps	(5,683)	Debt securities	(1,745)	118,228
Receive-fixed interest-rate swaps	2,739	Debt securities	769	149,011
Rights	(1,042)	Equity securities	5,088	27,885,963 shares
Total return bond swaps	(126,841)	Debt securities	(131,061)	2,642,443
Warrants	(2,751)	Equity securities	4,002	991,950 shares
Total	**$ 94,644**		**$ (246,454)**	

[1] The total Futures options bought of $12,120 is comprised of debt and equity securities option bought of $11,611 and $509, respectively.

Interest Rate Risk: Table 32 describes the maturity periods of the derivative instruments during which these fiduciary funds were exposed to interest rate risk.

Table 32

Schedule of Derivative Instruments Subject to Interest Rate Risk - Fiduciary Funds

June 30, 2011

(amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in years) Under 1	1-10	10+
Credit default swaps	$ 75	$ —	$ (93)	$ 168
Credit default swaps bought	6,218	(194)	179	6,233
Credit default swaps written	1,184	18	1,166	—
Fixed income options	11,611	—	11,611	—
Fixed income options written	(4,568)	(4,055)	(513)	—
Interest-rate swaps	(9,613)	—	(7,510)	(2,103)
Pay fixed interest-rate swaps	(1,745)	—	(614)	(1,131)
Receive fixed interest-rate swaps	769	—	(851)	1,620
Total return bond swaps	(131,061)	(97,249)	(33,884)	72
Total	**$ (127,130)**	**$ (101,480)**	**$ (30,509)**	**$ 4,859**

Table 33 details the reference rate, fair value and notional amount of the derivative instruments held by these fiduciary funds that were highly sensitive to changes in interest rate risk.

Table 33

Schedule of Derivative Instruments Highly Sensitive to Interest Rate Changes - Fiduciary Funds
June 30, 2011
(amounts in thousands)

Investment Type	Reference Rate	Fair Value	Notional Amount
Interest-rate swaps	Receive variable 3-month LIBOR, pay fixed 4.25%	$ (1,131)	$ 34,600
	Receive variable 3-month LIBOR, pay fixed 3.928%	(1,860)	75,000
	Receive variable 3-month LIBOR, pay fixed 3.905%	(4,711)	175,000
	Receive variable 3-month LIBOR, pay fixed 3.829%	(743)	12,000
	Receive variable 3-month LIBOR, pay fixed 3.575%	(938)	150,000
	Receive variable 3-month LIBOR, pay fixed 3.50%	(686)	31,200
	Receive variable 3-month LIBOR, pay fixed 3.36%	815	40,428
	Receive variable 3-month LIBOR, pay fixed 0%	(2,104)	29,153
	Receive fixed 5.8%, pay variable 6-month CDOR[1]	219	8,807
	Receive fixed 2.0%, pay variable 6-month LIBOR[2]	(58)	19,812
	Receive fixed 1.5%, pay variable 6-month LIBOR	1,459	61,912
	Receive fixed 4.385%, pay variable 3-month LIBOR	(215)	17,336
	Receive fixed 6.96%, pay variable 1-month TIIE[3]	(667)	38,484
	Receive fixed 6.75%, pay variable 1-month TIIE	23	1,885
	Receive fixed 6.59%, pay variable 1-month TIIE	8	776
Subtotal Interest-rate swaps		**$ (10,589)**	**$ 696,393**
Fixed-income options	Swaption 5YR RTP FEB13 5.11 PUT	$ 1,554	$ 250,000
	Swaption 5YR RTR MAR13 3.405 CALL	5,038	175,000
	Swaption 5YR RTR APR13 3.428 CALL	2,123	75,000
	Swaption 5YR RTR MAY13 3.075 CALL	1,450	75,000
	Swaption 5YR RTR MAY13 3.075 CALL	1,446	75,000
Subtotal Fixed-income options		**$ 11,611**	**$ 650,000**
Total return bond swaps	Receive fixed 1.00%, pay fixed 1.00%	**$ (131,120)**	**$ 2,623,499**
Total		**$ (130,098)**	**$ 3,969,892**

[1] Canadian Dealer Offered Rate (CDOR)
[2] London Interbank Offered Rate (LIBOR)
[3] Tasa de Interes Interbancaria de Equilibrio (TIIE)

Credit Risk: Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral and exposure monitoring procedures.

Table 34 details the counterparty, percent of net exposure, and credit ratings for the derivative instruments held by CalPERS that were subject to credit risk.

Table 34

Schedule of Derivative Instruments Subject To Credit Risk - California Public Employees' Retirement System
June 30, 2011

Counterparty	Percent of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Societe Generale	21.53 %	A+	A+	Aa2
JP Morgan Chase Bank NA	21.45	AA-	AA-	Aa1
Credit Suisse Securities (USA), LLC	14.72	A+	AA-	Aa1
UBS AG	12.47	A+	A+	Aa3
Barclays Capital	11.32	AA-	AA-	Aa3
Goldman Sachs International	11.27	A	A+	A1
Royal Bank of Scotland PLC	3.64	A+	AA-	Aa3
Morgan Stanley and Co. International PLC	1.82	A	A	A2
BNP Paribas	1.27	AA	AA-	Aa2
Deutsche Bank AG London	0.51	A+	AA-	Aa3

In cases where a wholly owned broker-dealer does not engage the rating companies for a standalone rating, the subsidiary is assigned the parent company rating as the broker-dealer is an integral part of their business model(s). With the exception of foreign currency forwards, it is CalSTRS' practice to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments where it is consistent with market practice. As of June 30, 2011, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange traded derivatives was $3 million. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2011, was $8.1 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2011, CalSTRS did not have any significant exposure to counterparty credit risk with any single party.

While CalSTRS did not have any master netting agreements with its counterparties at June 30, 2011, Table 35 presents exposure for similar instruments with the same counterparty on a net basis and describes the counterparty credit ratings for the non-exchange-traded derivative instruments held by CalSTRS that were outstanding and subject to loss.

Table 35

Schedule of Counterparty Credit Rating - California State Teachers' Retirement System

June 30, 2011

(amounts in thousands)

Ratings	Credit Defalt Swaps	Interest-Rate Swaps	Total Return Swaps	Foreign Currency Forwards	Total
AA	$ —	$ —	$ 34	$ 1,995	$ 2,029
A	688	—	27	5,367	6,082
Subtotal investments in asset position	**688**	**—**	**61**	**7,362**	**8,111**
Investments in liability position	(613)	(9,613)	(2)	(8,586)	(18,814)
Total investments in asset/ (liability) position	**$ 75**	**$ (9,613)**	**$ 59**	**$ (1,224)**	**$ (10,703)**

C. Discretely Presented Component Unit—University of California

The University of California, a discretely presented component unit, holds investment derivatives in futures and forward contracts, and interest-rate swap contracts. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy. The university enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. The university also holds interest-rate swaps that are derivative instruments that meet the criteria for an effective hedge. Certain of the interest-rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the university received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instrument was $30 million at June 30, 2011. Derivatives are recorded at fair value as either assets or liabilities in the statement of net assets. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash-flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other noncurrent liabilities and deferred outflows with other noncurrent assets in the statement of net assets. Changes in the fair value of derivatives that are not hedging derivatives are reported as net appreciation or depreciation in fair value of investments in the statement of activities. Table 36 summarizes the fair value balances and notional amounts of derivative instruments outstanding, categorized by type, and the changes in fair value of such derivatives.

Table 36

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - University of California
June 30, 2011
(amounts in thousands)

	Changes in Fair Value	Classification	Fair Value	Notional Amount
Investment derivatives				
Domestic equity futures contracts long	$ 45,109	Investments	$ 1,725	$ 238,874
Domestic equity futures contracts short	(303)	Investments	—	—
Foreign equity futures contracts long	3,267	Investments	397	33,368
Foreign equity futures contracts short	(883)	Investments	(130)	(9,524)
Foreign currency exchange contracts long	40,678	Investments	(127)	37,705
Foreign currency exchange contracts short	(78,301)	Investments	(5,005)	(486,844)
Stock rights/warrants	498	Investments	1,400	—
Total investment derivatives	**$ 10,065**		**$ (1,740)**	**$ (186,421)**
Cash flow hedges				
Interest-rate swaps		Other noncurrent		
Pay fixed, receive variable	$ 16,990	assets (liabilities)	$ (47,092)	$ 260,690

Table 29 includes the university's debt service requirements and net swap payments as of June 30, 2011. Total principal, variable interest, and interest rate net swap payments are $261 million, $42 million, and $209 million, respectively.

Objective and Terms: The university entered into interest-rate swap agreements in connection with certain variable-rate Medical Center Pooled Revenue Bonds as a means to lower borrowing costs, rather than using fixed-rate bonds at the time of issuance. Under each swap agreement, the university pays the swap counterparties a fixed-interest-rate payment and receives a variable-interest-rate payment that effectively changes the variable-interest-rate bonds to synthetic fixed-rate bonds.

Fair Value: There is a risk that the fair value of a swap will become negative as a result of market conditions. The swaps have an estimated negative fair value of $47 million as of June 30, 2011. The fair value of the interest rate swaps is the estimated amount the university would have either received or paid if the swap agreements had been terminated on June 30, 2011. The fair value was estimated by financial institutions or independent advisors using available quoted market prices or discounted expected future net cash flows.

Table 37 summarizes the terms and fair value of the swap agreements.

Table 37

Schedule of Terms and Fair Values of Swap Agreements
(amounts in thousands)

Swap Termination Date	Effective Date	Outstanding Notional Amount at June 30, 2011	Fair Value at June 30, 2011	Fixed Rate Paid by University of California	Variable Rate Received by University of California	Counterparty Credit Ratings (Moody's, S&P's)
2032	2001	$ 85,915	$ (9,133)	3.5897 %	58% of 1-Month LIBOR + 0.48%*	A2, A
2047	2008	174,775	(37,959)	4.6873	67% of 3-Month LIBOR + 0.73%*	Aa3, A+
Total		**$ 260,690**	**$ (47,092)**			

* Weighted average spread

Interest Rate Risk: There is a risk the value of the interest-rate swaps will decline because of changing interest rates. The values of the interest-rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis Risk: The university is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the variable receipt rate on the interest rate swaps is taxable. However, there is no basis or tax risk related to the swap with the $175 million notional amount since the variable rate the university pays to the bond holders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk: The university is exposed to risk in the event of nonperformance by counterparties resulting in cancellation of the synthetic interest rate and returning the interest-rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain swaps may be terminated if the counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. At termination, the university may also owe a termination payment if there is a realized loss based on the fair value of the swap.

Credit Risk: The university could be exposed to credit risk if the interest-rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The university faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the university provided by the counterparty. Contracts with negative fair values are not exposed to credit risk. There are no collateral requirements related to the interest-rate swap with the $86 million notional amount. Depending on the fair value related to the swap with the $175 million notional amount, the university may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $75 million or the cash and investments held by the medical centers fall below $250 million. As of June 30, 2011, no collateral was required.

D. Discretely Presented Component Unit—California Housing Finance Agency

The California Housing Finance Agency (CalHFA), a discretely presented component unit, holds interest-rate swaps that are derivative instruments. As of June 30, 2011, the fair value of the swaps is reported as other noncurrent assets or as other noncurrent liabilities in the statement of net assets. The cumulative gain or loss on the fair value of the effective swaps is reported as other noncurrent assets or as other noncurrent liabilities in the statement of net assets. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as other general revenues in the statement of activities. CalHFA did not pay or receive any cash when the swap transactions were initiated except for in-substance assignments. Except as discussed under rollover risk, CalHFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable. Table 38 summarizes the swap fair value activity in the statement of net assets and the statement of activities.

Table 38

Schedule of Swap Agreement Fair Value - California Housing Finance Agency
June 30, 2011
(amounts in thousands)

	Amount
Statement of net assets:	
Other noncurrent assets	$ 212,487
Other noncurrent liabilities	252,486
Statement of activities:	
Other general revenues (expenses)	(3,360)

Table 29 includes debt service requirements and net swap payments as of June 30, 2011, for CalHFA. Total principal, variable interest, and interest rate net swap payments are $2.4 billion, $77 million, and $1.2 billion, respectively.

Objective: CalHFA has entered into interest-rate swap agreements with various counterparties to protect itself against rising rates by providing synthetic fixed rates for a like amount of variable-rate bond obligations. The majority of CalHFA's interest-rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA has used multiple swap formulas. As of June 30, 2011, the formulas for the swap portfolio used the SIFMA, the one-month LIBOR, the three-month LIBOR, and the six-month LIBOR rates. The swap formula will continue to be monitored for its effectiveness in

case CalHFA chooses to enter into any future interest-rate swaps. In addition, CalHFA entered into eight basis swaps as a means to change the variable-rate formula received from counterparties for $240 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: CalHFA uses 13 counterparties for its interest-rate swap transactions. All of CalHFA's interest-rate swap agreements require CalHFA to post collateral if its general obligation credit ratings, as issued by Moody's and Standard & Poor's, fall below a certain level or if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest-rate swaps. If CalHFA does not post collateral, the interest-rate swap can be terminated by the counterparty. As of June 30, 2011, CalHFA's swap portfolio has an aggregate negative fair value of $252 million due to a decline in interest rates. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA has no net exposure to credit risk. CalHFA has 106 swap transactions, with outstanding notional amounts of $2.8 billion, effective dates from December 9, 1999, to November 1, 2009, and scheduled termination dates from August 1, 2012, to August 1, 2042. Standard & Poor's credit ratings for these counterparties range from A- to AAA; Moody's credit ratings range from A3 to Aaa.

Interest Rate Risk: CalHFA is exposed to interest rate risk on its fixed-payer swaps. As the LIBOR or the SIFMA swap index decreases, CalHFA's net payments on the swaps increase.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual bond issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the SIFMA index. For swaps associated with tax-exempt bonds for which CalHFA receives a variable-rate payment based on a percentage of LIBOR, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2011, the SIFMA rate was 0.09%, the one-month LIBOR was 0.19%, the three-month LIBOR was 0.25%, and the six-month LIBOR was 0.40%.

Termination Risk: Counterparties to CalHFA's interest-rate swaps have termination rights that require settlement payments by either CalHFA or the counterparty, based on the fair value of the swap.

Rollover Risk: CalHFA is exposed to rollover risk on interest-rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, CalHFA will be re-exposed to the risks being hedged by the swaps.

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NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due from other funds and due to other funds represent short-term interfund receivables and payables resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund. Table 39 presents the amounts due from and due to other funds.

Table 39

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2011
(amounts in thousands)

	Due To					
Due From	**General Fund**	**Federal Fund**	**Transportation Fund**	**Nonmajor Governmental Fund**	**Electric Power Fund**	**Water Resources Fund**
Governmental funds						
General Fund	$ —	$ —	$ 215,916	$ 1,130,821	$ —	$ —
Federal Fund	970,235	—	1,171,808	199,785	—	—
Transportation Fund	1	—	—	33,426	—	—
Nonmajor governmental funds	29,670	—	28,755	32,600	—	—
Total governmental funds	**999,906**	**—**	**1,416,479**	**1,396,632**	**—**	**—**
Enterprise funds						
Water Resources Fund	—	—	—	—	—	—
Public Building Construction Fund	1,388	—	—	—	—	—
State Lottery Fund	177	—	—	276,999	—	—
Unemployment Programs Fund	175,982	46,245	—	—	—	—
Nonmajor enterprise funds	30	—	—	550	—	—
Total enterprise funds	**177,577**	**46,245**	**—**	**277,549**	**—**	**—**
Internal service funds	**15,775**	**—**	**25,720**	**52,772**	**6,000**	**2,206**
Total primary government	**$ 1,193,258**	**$ 46,245**	**$ 1,442,199**	**$ 1,726,953**	**$ 6,000**	**$ 2,206**

Due To							
Public Building Construction Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ —	$ —	$ —	$ —	$ 1,302	$ 192,585	$ 8,907,937	$ 10,448,561
—	—	—	—	4,165	41,319	4,942,794	7,330,106
275	—	—	—	—	24,097	35,057	92,856
—	—	—	2,170	46	33,113	5,219	131,573
275	**—**	**—**	**2,170**	**5,513**	**291,114**	**13,891,007**	**18,003,096**
—	—	—	—	—	36,547	—	36,547
—	—	—	—	—	60,499	628	62,515
—	—	—	—	—	—	—	277,176
—	—	—	—	—	—	—	222,227
—	—	—	—	—	48	11	639
—	**—**	**—**	**—**	**—**	**97,094**	**639**	**599,104**
26,924	**517**	**2,361**	**—**	**816**	**11,629**	**2,113**	**146,833**
$ 27,199	**$ 517**	**$ 2,361**	**$ 2,170**	**$ 6,329**	**$ 399,837**	**$ 13,893,759**	**$ 18,749,033**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 39, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund and nonmajor governmental funds—to the General Fund. The $2.6 billion in Transportation Fund loans payable from the General Fund also includes $1.3 billion of deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program. Table 40 presents the interfund receivables and payables.

Table 40

Schedule of Interfund Receivables and Payables
June 30, 2011
(amounts in thousands)

	Interfund Payables				
Interfund Receivables	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**
Governmental funds					
General Fund	$ —	$ 2,598,754	$ 4,880,735	$ —	$ 849,775
Transportation Fund	—	—	—	—	—
Nonmajor governmental funds	6,654	9,872	—	—	—
Total governmental funds	**6,654**	**2,608,626**	**4,880,735**	**—**	**849,775**
Internal service funds	**40,650**	**—**	**782**	**91,517**	**—**
Total primary government	**$ 47,304**	**$ 2,608,626**	**$ 4,881,517**	**$ 91,517**	**$ 849,775**

Interfund Payables				
California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Agency Funds	Total
$ 161,727	$ 143,978	$ 193,684	$ 90,232	$ 8,918,885
—	—	2,421	—	2,421
—	—	—	—	16,526
161,727	**143,978**	**196,105**	**90,232**	**8,937,832**
—	**—**	**6,140**	**—**	**139,089**
$ 161,727	**$ 143,978**	**$ 202,245**	**$ 90,232**	**$ 9,076,921**

Due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made. Table 41 presents the due from primary government and due to component units.

Table 41

Schedule of Due From Primary Government and Due to Component Units
June 30, 2011
(amounts in thousands)

	Due To			
	Component Units			
Due From	University of California	Public Employees' Benefits Fund	Nonmajor Component Units	Total
Governmental funds				
General Fund	$ 198,389	$ —	$ —	$ 198,389
Nonmajor governmental funds	5,152	—	19	5,171
Total governmental funds	**203,541**	**—**	**19**	**203,560**
Internal service funds	**—**	**571**	**168**	**739**
Total primary government	**$ 203,541**	**$ 571**	**$ 187**	**$ 204,299**

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B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which then disburses it. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfers from the General Fund were $2.6 billion to California State University (a major enterprise fund) and $1.5 billion to nonmajor governmental funds for support of trial courts. The Federal Fund transferred $4.0 billion to nonmajor governmental funds for hospital services under the Medi-Cal program. Table 42 presents interfund transfers of the primary government.

Table 42

Schedule of Interfund Transfers
June 30, 2011
(amounts in thousands)

	Transferred To				
Transferred From	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Unemployment Programs Fund**	**California State University Fund**
Governmental funds					
General Fund	$ —	$ —	$ 2,381,813	$ —	$ 2,562,919
Federal Fund	749,389	—	4,201,081	616,657	—
Transportation Fund	171,253	—	770,880	—	—
Nonmajor governmental funds	209,888	235	129,917	—	108,371
Total governmental funds	**1,130,530**	**235**	**7,483,691**	**616,657**	**2,671,290**
Public Building Construction Fund	**—**	**—**	**—**	**—**	**32,692**
Nonmajor enterprise funds	**36,349**	**—**	**—**	**—**	**—**
Internal service funds	**9,737**	**—**	**44,687**	**—**	**—**
Total primary government	**$ 1,176,616**	**$ 235**	**$ 7,528,378**	**$ 616,657**	**$ 2,703,982**

Internal Service Funds	Total
$ —	$ 4,944,732
—	5,567,127
—	942,133
397	448,808
397	**11,902,800**
—	**32,692**
—	**36,349**
—	**54,424**
$ 397	**$ 12,026,265**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. See Note 1K for the new fund balance classifications as defined by GASB. For purposes of reporting in the State's CAFR, the following are the State's policies based on its interpretation of GASB Statement No. 54.

Committed fund balance: The highest level of decision-making authority within California statewide government is the California Legislature. The formal action required to establish, modify, or rescind a fund balance commitment is a statute that becomes law after a bill is passed. Commitments of fund balance, approved by State Legislative action, must be in place prior to the end of the State's fiscal year. The California State Legislature is made up of two houses: the Senate and the Assembly. Both houses must approve a bill. If both houses approve a bill, it then goes to the Governor. The Governor has three choices: the Governor can sign the bill into law, allow it to become law without his or her signature, or veto it. A governor's veto can be overridden by a two-thirds vote in each house.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount unless the purchase order relates to restricted or committed resources. Furthermore, all resources in governmental funds, other than the General Fund, that are not restricted, committed, or nonspendable are classified as assigned.

Fund balance spending order: For the purpose of reporting fund balance in the CAFR under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Table 43 presents the composition of the fund balance of the governmental funds.

Table 43

Schedule of Fund Balance by Function
June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental
Nonspendable				
Long-term interfund receivables	$ 47,304	$ —	$ —	$ —
Long-term loans receivable	100,715	—	—	—
Assets not in spendable form	—	—	—	32,196
Legally or contractually required to remain intact	—	—	—	7,252
Total nonspendable	**148,019**	**—**	**—**	**39,448**
Restricted				
General government	4,209	—	—	3,269,987
Education	59,328	296	4,632	1,426,403
Health and human services	89,026	212	—	4,125,104
Resources	—	10,651	—	7,247,289
State and consumer services	3,933	—	206,272	539,601
Business and transportation	—	110,395	7,512,567	3,252,114
Correctional programs	—	—	—	3,802
Total restricted	**156,496**	**121,554**	**7,723,471**	**19,864,300**
Committed				
General government	16,698	—	—	550,710
Education	4,433	—	—	47,149
Health and human services	8,719	—	2,304	189,458
Resources	—	—	20	1,350,585
State and consumer services	—	—	—	61,372
Business and transportation	—	—	46,201	437,593
Correctional programs	—	—	—	16,310
Total committed	**29,850**	**—**	**48,525**	**2,653,177**
Assigned - General government	—	—	—	268,888
Unassigned	**(20,273,606)**	—	**(4,764)**	**(17,083)**
Total fund balances (deficit)	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**	**$ 22,808,730**

B. Fund Deficits

Table 44 shows the funds that had deficits.

Table 44

Schedule of Fund Deficits
June 30, 2011
(amounts in thousands)

	Governmental Funds	Enterprise Funds	Internal Service Funds
General Fund	$ 19,939,241	$ —	$ —
Unemployment Programs Fund	—	6,879,180	—
Architecture Revolving Fund	—	—	25,228
Financial Information Systems Fund	—	—	28,915
Office of Systems Integration Fund	—	—	1,348
Service Revolving Fund	—	—	52,412
Total fund deficits	**$ 19,939,241**	**$ 6,879,180**	**$ 107,903**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net asset categories of the government-wide and fund financial statements. As of June 30, 2011, the total value of restricted endowments and gifts was $11.1 billion and unrestricted endowments and gifts was $1.6 billion. The university's policy is to retain appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $1.6 billion at June 30, 2011. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $829 million and $9 million, respectively.

NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a "pay as you go" basis, with workers' compensation benefits for self-insured agencies being initially paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insured workers' compensation losses is estimated to be $3.1 billion as of June 30, 2011. This estimate is primarily based on actuarial reviews of the State's employee workers'

compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $4.2 billion is discounted to $3.1 billion using a 3.5% interest rate. Of the total, $350 million is a current liability, of which $218 million is included in the General Fund, $119 million in the special revenue funds, $2 million in the internal service funds and $11 million in enterprise funds. The remaining $2.7 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Assets.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 2.0% to 5.0%.

The California Public Employees' Retirement System (CalPERS) through its Public Employees' Benefits, a discretely presented component unit, administers three self-funded health care plans as risk pools available to all entities that contract for health insurance coverage under the Public Employees' Medical and Hospital Care Act. The plans retain all the risk of loss of allowable health claims. Claim liabilities are based on estimates of the ultimate costs of claims that have been reported but not settled and of claims that have been incurred but not reported. The estimated claims were calculated by a third-party administrator using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Table 45 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 45

Schedule of Changes in Self-Insurance Claims
Years Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Units			
			University of California		Public Employee Benefits	
	2011	2010	2011	2010	2011	2010
Unpaid claims, beginning	$ 2,762,761	$ 2,577,638	$ 585,955	$ 598,014	$ 192,195	$ 216,584
Incurred claims	700,815	542,698	163,191	166,943	1,722,185	1,554,574
Claim payments	(382,055)	(357,575)	(160,070)	(179,002)	(1,678,058)	(1,578,963)
Unpaid claims, ending	**$ 3,081,521** *	**$ 2,762,761**	**$ 589,076**	**$ 585,955**	**$ 236,322**	**$ 192,195**

* Includes $51,665 for business-type activities.

NOTE 21: NONMAJOR ENTERPRISE SEGMENT INFORMATION

A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets, and liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements.

Table 46 presents the Condensed Statement of Net Assets; the Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Condensed Statement of Cash Flows for nonmajor enterprise funds that meet the definition of a segment. The primary sources of revenues for these funds follow.

High Technology Education Fund: Rental payments on public buildings that are used for educational and research purposes related to specific fields of high technology.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

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Table 46

Nonmajor Enterprise Segments

(amounts in thousands)

Condensed Statement of Net Assets

June 30, 2011	High Technology Education	State Water Pollution Control
Assets		
Due from other funds	$ 34	$ 4,490
Due from other governments	—	162,717
Other current assets	24,157	330,839
Capital assets	—	—
Other noncurrent assets	65,779	2,818,618
Total assets	**$ 89,970**	**$ 3,316,664**
Liabilities		
Due to other funds	$ —	$ 393
Other current liabilities	17,234	26,657
Noncurrent liabilities	37,829	116,686
Total liabilities	**55,063**	**143,736**
Net assets		
Investment in capital assets, net of related debt	—	—
Restricted	34,907	352,045
Unrestricted	—	2,820,883
Total net assets	**34,907**	**3,172,928**
Total liabilities and net assets	**$ 89,970**	**$ 3,316,664**

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year Ended June 30, 2011

Operating revenues	$ 10,498	$ 54,603
Depreciation expense	—	—
Other operating expenses	(9,590)	(4,876)
Operating income (loss)	908	49,727
Nonoperating revenues (expenses)	—	(4,723)
Capital contributions	—	86,272
Change in net assets	908	131,276
Total net assets, July 1, 2010	**33,999**	**3,041,652**
Total net assets, June 30, 2011	**$ 34,907**	**$ 3,172,928**

Condensed Statement of Cash Flows

Year Ended June 30, 2011

Net cash provided by (used in):		
Operating activities	$ 20,247	$ (41,080)
Noncapital financing activities	(19,995)	(31,471)
Capital and related financing activities	—	91,120
Investing activities	—	(712)
Net decrease	**252**	**17,857**
Cash and pooled investments at July 1, 2010	**18,949**	**247,329**
Cash and pooled investments at June 30, 2011	**$ 19,201**	**$ 265,186**

Housing Loan	Total
$ 143	$ 4,667
—	162,717
158,626	513,622
611	611
1,362,147	4,246,544
$ 1,521,527	**$ 4,928,161**
$ —	$ 393
63,130	107,021
1,298,718	1,453,233
1,361,848	**1,560,647**
611	611
159,068	546,020
—	2,820,883
159,679	**3,367,514**
$ 1,521,527	**$ 4,928,161**

$ 87,082	$ 152,183
(70)	(70)
(90,843)	(105,309)
(3,831)	46,804
(11,612)	(16,335)
—	86,272
(15,443)	116,741
175,122	**3,250,773**
$ 159,679	**$ 3,367,514**

$ 149,989	$ 129,156
(302,897)	(354,363)
(176)	90,944
2,529	1,817
(150,555)	**(132,446)**
258,626	**524,904**
$ 108,071	**$ 392,458**

NOTE 22: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as construction of new facilities, remodeling of existing facilities, and acquisition of equipment. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2011, these component units had $23.7 billion of debt outstanding, which is not debt of the State.

NOTE 23: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operations. To the extent they existed, the following were accrued as a liability in the government–wide financial statements: legal proceedings that were decided against the primary government before June 30, 2011; legal proceedings that were in progress as of June 30, 2011, and were settled or decided against the primary government as of February 24, 2012; and legal proceedings having a high probability of resulting in a decision against the primary government as of February 24, 2012, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board,* and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Bakersfield Mall, LLC v. Franchise Tax Board* the plaintiff contends that not all of its income is derived within the State and therefore not all income should be subject to the LLC fee. The second case, *CA–Centerside II, LLC v. Franchise Tax Board*, alleges that the LLC fee is unconstitutional regarding any activities, whether in–state or out–of–state.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as *Northwest* who have no income earned inside California. In another recently settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board*, raised the same constitutional issues as *Northwest and Ventas*, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the State, making it similar to the *Ventas* case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim procedures. *CA–Centerside II, LLC v. Franchise Tax Board* raised the same constitutional issues

as *Northwest and Ventas*, and alleges that the LLC fee is unconstitutional regarding any activities, whether in–state or out–of–state. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion. In addition, plaintiffs will in all likelihood seek a very large award of attorneys' fees in these cases should they prevail.

The primary government is the defendant in both *California Redevelopment Association et al. v. Michael C. Genest et al.* and *County of Los Angeles, et al. v. Genest, et al*. These two cases challenge the constitutionality of Assembly Bill X4-26 that requires that redevelopment agencies remit a total of $1.7 billion in 2009-10 fiscal year and $350 million in 2010-11 fiscal year to a county Supplemental Education Revenue Augmentation Fund to be used by local schools. The State successfully defeated the claims in the superior court and is currently defending against the claims in the Court of Appeal. If the Court of Appeal grants judgment for the plaintiff, the State would need to pay the challenged amount to the schools from the General Fund.

The primary government is the defendant in numerous cases regarding the Governor's executive orders directing the furlough, without pay, of state employees. The first executive order, issued on December 19, 2008, directed furloughs of two days per month, effective February 1, 2009, through June 30, 2010. The second order, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, the Governor issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010-11 fiscal year budget was adopted and the Director of Finance determined that the State had sufficient cash flow to pay for essential services. Furloughs officially ended for all Service Employees International Union represented State employees in November 2010 and for all remaining bargaining units in April 2011.

Most cases related to the furloughs have been settled or dismissed with only five cases still pending. Neither the outcome nor the estimated potential loss for any of the cases can be determined at this time.

The California School Boards Association has filed a case against the primary government. *California School Boards Association, et al.v. State of California et al*. is challenging the amount of funds appropriated for education in the 2011-12 fiscal year, arguing that the amount violates the minimum funding guarantee in the California Constitution Article XVI, section 8 (Proposition 98). Plaintiffs argue that certain funds directed to local governments should have been included in the Proposition 98 calculation and that by not including these funds in the calculation the state underfunded education by approximately $2.8 billion in the 2011-12 fiscal year. The State has denied the material allegations and has filed an answer to the complaint. Currently it is anticipated that the State will ultimately add the $2.8 billion back to the minimum Proposition 98 calculation over the next five years; however, an unfavorable outcome of this case would require the State to add back the amount entirely in the 2012-13 fiscal year.

Until recently the primary government was a defendant in five cases related to Medi-Cal reimbursement rate reductions. As a result of intervening events including sunsetting of specific legislation, resolution of these matters will no longer have a future fiscal impact.

The University of California, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund, and certain nonmajor discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of the University of California, SCIF, CalHFA, the Public Employees' Benefit Fund, and certain nonmajor discretely presented component units are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. The pension liability for all pension and other employee benefit trust funds was determined in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. The amounts of the pension liability for all pension and other employee benefit trust funds are presented in Table 48 as the net pension obligation (NPO) as of June 30, 2011. The investments of these fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Program, and the public employee Supplemental Contributions Program Fund. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS also offers the Pension2 Program through a third-party administrator. The Pension2 Program is a tax-deferred defined contribution plan meeting the requirements of Internal Revenue Code Sections 403(b) and 457. The Teachers' Health Benefits Fund provides postemployment health benefits to retired members of the DB Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and when the employer or the primary government has made a formal commitment to provide the contributions.

Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the Public Employees' Retirement Fund (PERF), which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,512 public agencies as of June 30, 2011.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was $51.3 billion at June 30, 2010. This is a result of the difference between the actuarial value of assets of $257.1 billion and the actuarial accrued liability of $308.3 billion. Contributions are either actuarially determined or determined by statute.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The discretely presented component units' participation in the PERF is not a material portion of the program. The primary government employees served by the PERF include: first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. In the June 30, 2010 actuarial valuation, the payroll for primary government employees covered by the PERF for fiscal year 2008-09 was $16.3 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations or by statute.

Employees, with the exception of employees in the second-tier plans and the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $0 to $863. Employees' required contributions vary from 5.0% to 11.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance. Table 47 shows the required employer contribution rates for the primary government.

Table 47

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category

Year Ended June 30, 2011

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	9.862 %	10.060 %	0.000 %	19.922 %
Second tier	9.562	10.060	0.000	19.622
Industrial (first and second tier)	13.623	4.390	0.170	18.183
California Highway Patrol	15.400	17.225	0.000	32.625
Peace officers and firefighters	18.363	10.447	0.077	28.887
Other safety members	16.439	4.109	0.124	20.672

For the year ended June 30, 2011, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.3 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2010, is also shown in Table 48 for the primary government.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, projected salary increases of 3.45% to 19.95%, depending on duration of service, and postemployment benefit increases of 2.00% or 3.00%, compounded annually. The projected salary increases include a 3.00% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the Judges' Retirement Fund (JRF), which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 2011. The payroll for employees covered by the JRF for the year ended June 30, 2011, was approximately $80 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2011, the required member rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are made pursuant to state statute and are not actuarially determined. As of June 30, 2011, employer contributions are required to be 8.0% of applicable member compensation. Other funding to meet benefit payment requirements of the JRF is currently provided by: filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The APC and the amount of employer contributions made to the JRF for the year ended June 30, 2011, were $514 million and $167 million, respectively. The NPO of the JRF at June 30, 2011, was $3.0 billion, an increase of $346 million over last year's balance of $2.7 billion. The APC is comprised of $1.3 billion for the annual required contribution (ARC), $119 million for interest on the NPO, and a negative $868 million adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 48. Information on the last valuation, which was performed as of June 30, 2010, is shown in Table 48.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return, projected salary increases of 3.25%, and postemployment benefit increases of 3.25%. The projected salary increases include a 3.00% inflation assumption.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the Judges' Retirement Fund II (JRF II), which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 2011, was approximately $224 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Policy: The required contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2011, the required member rate for the JRF II was 8.0%, and the primary government's contribution rate for the JRF II was 24.04% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate is adjusted periodically as part of the annual Budget Act, in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 2011, the amount of contributions made for the JRF II were approximately $53.9 million, which is more than the actuarially determined APC and required contribution of approximately $50.9 million. The APC and the percentage of APC contributed for the year ended June 30, 2011, are shown in Table 48. Information on the last valuation, which was performed as of June 30, 2010, is also shown in Table 48.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.25% investment rate of return, projected salary increases of 3.25%, and postemployment benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of payroll on a closed basis over 23 years.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the Legislators' Retirement Fund (LRF), which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 7, 1990, constitutional officers, and legislative statutory officers. For the fiscal year ending June 30, 2011, no statutory contribution was required, based on the June 30, 2009 valuation.

The LRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law. No current legislators are eligible to participate in the LRF. The only active members in the LRF are 16 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and legislative statutory officers.

Funding Policy: The employer contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Member contribution rates are defined by law. For the year ended June 30, 2011, employee contributions were not required because the plan was superfunded. "Superfunded" means that the plan's actuarial value of assets exceeds the present value of future benefits for current members.

The NPO of the LRF on June 30, 2011, was approximately $10 million. There was no APC because the ARC equaled zero and the interest on the NPO closely approximated the adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 48. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Information on the last valuation, which was performed as of June 30, 2010, is also shown in Table 48. The aggregate cost method that was used for the June 30, 2010 valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the information about funded status in Table 48 is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

The Schedule of Funding Progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 6.00% investment rate of return, projected salary increases of 3.25%, and postemployment benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption.

E. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code. It is intended to supplement the retirement benefits provided by the Public Employees' Retirement Fund to eligible peace officers and firefighters employed by the State of California.

Funding Policy: Contributions to the plan are funded entirely by the primary government. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. Effective April 2011, the State suspended contributing on behalf of rank and file positions; and effective May 2011, the State suspended contributing on behalf of supervisors, management, and exempt positions. As of June 30, 2011, the duration of the suspension is unknown because the program is being administered according to the most recent Memorandum of Understanding. For the year ended June 30, 2011, contributions by the primary government to the SPOFF were approximately $39 million.

Contributions are invested in the CalPERS Moderate Asset Allocation Fund. Distributions are allowed only at retirement or permanent separation from all State employment. The benefits paid to a participant will depend only on the amount contributed to the participant's account and earnings on the value of the participant's account. Plan provisions are established by and may be amended by statute. At June 30, 2011, there were 39,432 participants in the SPOFF.

F. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2011, the DB Program had 1,669 contributing employers and as of June 30, 2010, had 441,544 active and 166,976 inactive program members and 243,796 benefit recipients. The primary

government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2011, was approximately $26.3 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire. At June 30, 2011, the CB Benefit Program had 33 contributing school districts and 33,261 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During fiscal year 2010-11, the RB Program had 243 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate of members was 6.00% of creditable compensation through December 31, 2010, and increased to 8.00% thereafter for service less than or equal to one year of creditable service per fiscal year. The employer contribution rate is 8.25% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the employer contribution rate is 0.25%. In fiscal year 2010-11, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions, which equal 16.00% of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2010, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund is required to contribute the additional quarterly payments at a contribution rate of 0.524% starting October 1, 2011.

The DBS Program member contribution rate is 2.0% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the member contribution rate is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2011, the APC for the DB Program was approximately $6.0 billion; the employer and primary government contributions were approximately $2.2 billion and $568 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 48.

G. CalSTRS Pension2 Program

Plan Description: CalSTRS administers the Pension2 Program, which is comprised of the IRC 403(b) and 457 programs, through a third-party administrator. The Pension2 is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 2011, the Pension2 IRC 403(b) and 457 programs had approximately 761 and 23 participating employers (school districts) and approximately 6,547 and 148 plan members, respectively.

H. Teachers' Health Benefits Fund

Plan Description: CalSTRS administers the Teachers' Health Benefits Fund (THBF), which was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), to provide the Medicare Premium Payment Program for eligible retired members of the DB Program. At June 30, 2011, there were 7,777 benefit recipients.

Funding Policy: The THBF is funded as needed from the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000, actuarial valuation of the DB Program.

Table 48

Actuarial Information – Pension Trusts – Primary Government

Valuation Date As Indicated

	Public Employees' Retirement Fund	Judges' Retirement Fund	Judges' Retirement II Fund
Last actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Individual Entry Age Normal	Individual Entry Age Normal	Individual Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed
Remaining amortization period	Not available[3]	None	23 Years
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value
Actuarial assumption			
Investment rate of return	7.75 %	4.50[4] %	7.25 %
Projected salary increase	3.45-19.95	3.25	3.25
Includes inflation at	3.00	3.00	3.00
Post-retirement benefit increases	2.00 - 3.00	3.25	3.00
Annual pension costs (in millions)			
Year ended 6/30/09	$ 3,080	$ 400	$ 43
Year ended 6/30/10	2,878	662	45
Year ended 6/30/11	3,277	514	51
Percent contribution			
Year ended 6/30/09	100 %	24 %	92 %
Year ended 6/30/10	100	16	95
Year ended 6/30/11	100	13	106
Net pension obligation (NPO) (in millions)			
Year ended 6/30/09	—	$ 2,226	$ —
Year ended 6/30/10	—	2,703	2
Year ended 6/30/11	—	2,994	(1)
Funding as of last valuation (in millions)			
Actuarial value – assets	$ 97,346	64	461
Actuarial accrued liabilities (AAL) – entry age	121,446	3,429	521
Excess of actuarial value of assets over AAL (EAV) (unfunded actuarial accrued liability (UAAL))	(24,100)	(3,365)	(60)
Covered payroll	16,281	86	213
Funded ratio	80.2 %	1.9 %	88.5 %
EAV (UAAL) as percent of covered payroll	(148.0) %	(3,912.8) %	(28.2) %

[1] The aggregate cost method is used to determine the annual required contribution of the employer for the Legislators' Retirement Fund. Because this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age cost method and is intended to serve as a surrogate for the funded status of the plan.

[2] The State is a non-employer contributor to the State Teacher's Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. The notion of NPO does not apply to cost-sharing employer plans. According to the provisions of the Education Code, the State and local government employers contributed $568 million and $2.2 billion, respectively, for the year ending June 30, 2011. Based on the most recent actuarial valuation, dated June 30, 2010, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

Legislators' Retirement Fund[1]	State Teachers' Retirement Defined Benefit Program Fund[2]
June 30, 2010	June 30, 2010
Aggregate Cost	Entry Age Normal
None	Level % of Payroll, Open
None	30 years
Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
6.00 %	7.75 %
3.25	4.00
3.00	3.00
3.00	2.00
—	$ 4,547
—	4,924
—	5,985
—	63 %
—	55
—	47
$ 10	—
10	—
10	—
127	$ 140,291
112	196,315
15	(56,024)
2	26,275
113.4 %	71.5 %
750.0 %	(213.2) %

[3] Calculations not yet completed for June 30, 2010 valuations.

[4] The actuarial assumption for the investment rate of return was reduced from 7.0% to 4.5% to reflect the funding of the JRF on a pay-as-you-go basis.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

A. State of California Other Postemployment Benefits Plan

Plan Description: The primary government and certain discretely presented component units provide health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 3.3% of plan participation. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the Department of Personnel Administration, respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The plan contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is an agent multiple-employer irrevocable trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its annual financial statements, which can be downloaded from the CalPERS website.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement 45 reporting purposes. Fifty-two trial courts have a single-employer defined benefit plan, five trial courts (Fresno, Modoc, San Benito, San Bernardino, and Stanislaus) have no plan, and one trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. These plans have separate biennial actuarial valuations. Forty-eight plans are not accounted for in a trust fund and do not issue separate reports. Five trial courts (Lassen, Orange, San Diego, Sonoma, and Yolo) each contribute to one of four trust funds that issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2010-11 fiscal year, approximately 154,500 annuitants were enrolled to receive health benefits and approximately 128,100 annuitants were enrolled to receive dental benefits. As of July 1, 2009—the most recent actuarial valuation date—the trial courts had approximately 3,300 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis with a small amount of prefunding for California Highway Patrol members. The maximum 2011 monthly State contribution was $542 for one-party coverage, $1,030 for two-party coverage, and $1,326 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Forty-eight trial courts fund retirees' benefits on a pay-as-you-go basis. The 2010 monthly contribution rate for the trial courts with single-employer defined benefit plans—the latest year for which information is available—ranged from zero to $2,120. Two trial courts (Lassen and Yolo) contribute at

least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Orange contributes 3.50% of payroll, with at least the ARC contributed each year. Sonoma contributes $50,000 per month to an other postemployment benefit (OPEB) trust and pays a portion of ongoing benefit payments directly from trial court assets. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.80% of annual covered pension payroll. For the year ended June 30, 2011, the State contributed $1.6 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $27 million and certain discretely presented component units represent $49 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 49 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, and the two preceding years, including trial courts.

Table 49

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 3,871,290	36.19 %	$ 4,930,848
June 30, 2010	4,078,493	34.31	7,597,735
June 30, 2011	4,359,929	36.70	10,357,406

Table 50 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 50

Schedule of Net OPEB Obligation
June 30, 2011
(amounts in thousands)

	Amount
Annual required contribution	$ 4,319,632
Interest on net OPEB obligation	339,070
Adjustment to annual required contribution	(298,773)
Annual OPEB cost	**4,359,929**
Contributions made	(1,600,258)
Increase in net OPEB obligation	2,759,671
Net OPEB obligation — beginning of year	**7,597,735**
Net OPEB obligation — end of year	**$ 10,357,406**

Funded Status and Funding Progress: As of June 30, 2011—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL), for benefits was $62.14 billion, and the actuarial value of assets was $7 million, resulting in an unfunded actuarial accrued liability (UAAL) of negative $62.14 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.01 billion, and the ratio of the UAAL to the covered payroll was negative 345%.

For the trial courts, as of July 1, 2009—the most recent actuarial valuation date—the AAL for benefits was $1.5 billion, and the actuarial value of assets was $9 million, resulting in an UAAL of negative $1.5 billion. The covered payroll was $1.0 billion, and the ratio of the UAAL to covered payroll was negative 147%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2011 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual health care cost trend rate of actual increases for 2012 and 9.00% in 2013, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

For the trial courts, in the July 1, 2009 biennial actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 3.75% investment rate of return for 48 trial courts. Three trial courts (Lassen, Orange, and Yolo) use a 7.75% investment rate of return and Sonoma uses a 5.25% investment rate of return. The actuarial assumptions included an annual health care cost trend rate of 8.50%, initially, reduced by 0.50% increments to an ultimate rate of 5.00% after ten years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively. The UAAL is amortized as a level percentage of payroll on an open basis over 30 years for 46 trial courts, on a closed basis over 30 years for three trial courts (Lassen, Sonoma, and Yolo) and on a closed basis over 28 years for Orange. Two trial courts (Alpine and Mendocino) amortize the UAAL on a closed basis over 28 years as a level dollar amount.

B. University of California Retiree Health Plan

Plan Description: The University of California, a discretely presented component unit, administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their families (retirees) of the university and its affiliates. The Regents have the authority to establish or amend the plans. Additional information can be obtained from the 2010-11 annual report of the University of California Health and Welfare Plans.

Membership in the University of California Retirement Plan is required to become eligible for retiree health benefits. As of July 1, 2010, the date of the latest actuarial valuation, 35,194 retirees are receiving such benefits.

Funding Policy: The contribution requirements of the university and eligible retirees are established and may be amended by the university. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the university and the retiree. The university does not contribute toward the cost of other benefits available to retirees. Employees who meet specific requirements including completed years of credited service may continue their medical and dental benefits into retirement and continue to receive university contributions for those benefits. Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the university's contribution.

Table 51 presents the university's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, and the two preceding years.

Table 51

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation - University of California
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 1,550,562	18.84 %	$ 2,377,128
June 30, 2010	1,694,847	17.59	3,773,804
June 30, 2011	1,812,905	18.16	5,257,422

Table 52 presents the components of the university's net OPEB obligation to the University of California Health and Welfare Plans.

Table 52

Schedule of Net OPEB Obligation - University of California
June 30, 2011
(amounts in thousands)

	Amount
Annual required contribution	$ 1,990,553
Interest on net OPEB obligation	207,997
Adjustment to annual required contribution	(385,645)
Annual OPEB cost	**1,812,905**
Contributions made	(329,287)
Increase in net OPEB obligation	1,483,618
Net OPEB obligation — beginning of year	**3,773,804**
Net OPEB obligation — end of year	**$ 5,257,422**

Funded Status and Funding Progress: For the University of California, as of July 1, 2010—the most recent actuarial valuation date—the AAL for benefits was $16.0 billion, and the actuarial value of assets was $74 million, resulting in a UAAL of negative $16.0 billion. The covered payroll (annual payroll of active employees covered by the plan) was $8.0 billion, and the ratio of the UAAL to the covered payroll was negative 200%.

Actuarial Methods and Assumptions: For the University of California, in the July 1, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 5.5% investment rate of return, an annual health care cost trend rate of 10.0% to 12.0% initially, depending on the type of plan, reduced by increments to an ultimate rate of 5.0% over nine years, with a projected 3.0% inflation rate. The initial and future UAAL are being amortized as a flat dollar amount over 30 and 15 years, respectively, on a closed basis.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2011, but prior to the date of the auditor's report.

A. Debt Issuances

In September and October 2011, the primary government issued a total of $4.5 billion in general obligation bonds to finance or refinance capital project facilities and other voter-approved costs for public purposes, including: neighborhood parks; safe drinking water; children's hospitals; public education facilities; transportation; highway safety, traffic reduction, air quality, and port security; housing and emergency shelters; watershed and flood protection; river, coast, and beach protection; water quality, supply, and conservation; literacy improvement and public library construction and renovation; medical research; high speed rail facilities; and disaster preparedness and flood prevention.

In November 2011, the primary government issued $439 million in economic recovery bonds to refund the Refunded Bonds, the proceeds of which were used to address Accumulated State Budget Deficit.

In August, September and October 2011, the Department of Water Resources issued $309 million in water system revenue bonds and $960 million in power supply revenue bonds to refund certain outstanding bonds and pay the related issuance costs.

In September 2011, the California State University issued $430 million in revenue bonds to finance or refinance construction projects at various campuses.

In July and September 2011, the Regents of the University of California, a discretely presented component unit, issued $1.2 billion in general revenue bonds to finance pension contributions to the UCRP and $400 million to finance and refinance certain facilities and projects of the university.

Between October and November 2011, the State Public Works Board issued $888 million in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections, University of California, Department of Mental Health and others.

In December 2011 and February 2012, the Department of Veteran Affairs issued a total of $322 million in home purchase revenue bonds.

B. Cash Management

In September 2011, the State issued $5.4 billion of Revenue Anticipation Notes to assist in cash flow management for the State's 2011-12 fiscal year.

In July 2011, the State Legislature passed Senate Bill 79, which created the State Agency Investment Fund (SAIF), under Government Code section 16330, that allows state agencies to invest a minimum of $500 million in monies not required by law to be invested in the Pooled Money Investment Account. California State University transferred $700 million to SAIF in September 2011. The University of California transferred $1.0 billion in September 2011.

C. Other

California's high demand for unemployment insurance benefits required additional loans from the U.S. Department of Labor during the 2010-11 fiscal year. As of June 30, 2011, the State had $11.0 billion in outstanding loans from the U.S. Department of Labor that was used to cover deficits in the Unemployment Programs Fund. As of February 24, 2012, the State had an outstanding loan balance of $10.2 billion, and it expects to request additional loans throughout 2012.

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with investments in U.S. Treasury and U.S. Agency debt securities of the primary government, fiduciary funds, and certain discretely presented component units.

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Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund - Primary Government[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 89,304	$ 107,642	$ (18,338)	83.0 %	$ 16,460	(111.4) %
June 30, 2009	93,377	116,827	(23,450)	79.9	16,333	(143.6)
June 30, 2010	97,346	121,446	(24,100)	80.2	16,281	(148.0)

Judges' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 19	$ 3,607	$ (3,588)	0.5 %	$ 111	(3,232.4) %
June 30, 2009	41	3,583	(3,542)	1.1	97	(3,651.5)
June 30, 2010	64	3,429	(3,365)	1.9	86	(3,912.8)

Judges' Retirement Fund II

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 335	$ 367	$ (32)	91.3 %	$ 175	(18.3) %
June 30, 2009	379	451	(72)	84.0	199	(36.2)
June 30, 2010	461	521	(60)	88.5	213	(28.2)

[1] This table reflects the actuarial value of assets; the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, reported the market value of assets.

[2] The Legislators' Retirement Fund (LRF) is funded using the aggregate actuarial cost valuation method. This method does not identify actuarial liabilities and funded ratios. Information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funding progress of the plan.

[3] The trial courts reporting is based on 52 individual biennial actuarial valuations as of July 1, 2009, the latest information available.

Legislators' Retirement Fund[2]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 142	$ 103	$ 39	137.9 %	$ 2	1,950.0 %
June 30, 2009	134	112	22	119.6	2	1,100.0
June 30, 2010	127	112	15	113.4	2	750.0

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 155,215	$ 177,734	$ (22,519)	87.3 %	$ 27,118	(83.0) %
June 30, 2009	145,142	185,683	(40,541)	78.2	27,327	(148.4)
June 30, 2010	140,291	196,315	(56,024)	71.5	26,275	(213.2)

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
State substantive plan						
June 30, 2009	$ —	$ 51,820	$ (51,820)	— %	$ 18,450	(280.9) %
June 30, 2010	5	59,911	(59,906)	0.0	17,540	(341.5)
June 30, 2011	7	62,144	(62,137)	0.0	18,010	(345.0)
Trial Courts [3]						
July 1, 2007	—	1,291	(1,291)	—	989	(130.6)
July 1, 2009	9	1,493	(1,484)	0.6	1,009	(147.0)

Schedule of Funding Progress (continued)

(amounts in millions)

University of California Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
July 1, 2008	$ 51	$ 13,800	$ (13,749)	0.4 %	$ 7,450	(184.6) %
July 1, 2009	77	15,062	(14,985)	0.5	7,853	(190.8)
July 1, 2010	74	16,049	(15,974)	0.5	7,995	(199.8)

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2011, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $61.4 billion, land purchased for highway projects totaling $12.1 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $6.0 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. There were no donations for the fiscal year ending June 30, 2011. Relinquishments for the fiscal year ending June 30, 2011, are $59 million of state highway infrastructure and $12 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway Transportation Officials' (AASHTO) "Commonly Recognized Elements for Bridge Inspection."

From a deterioration standpoint, the Bridge Health Index (BHI) represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The State's established condition baseline and actual BHI for fiscal years 2008-09 through 2010-11 are shown in the following table.

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2009	80.0	94.1
2010	80.0	94.6
2011	80.0	94.3

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2011.

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,738	52.26 %	99.9
Good	4,575	35.48	96.3
Acceptable	852	6.61	85.7
Fair	206	1.60	73.5
Poor	138	1.07	62.7
Does not carry traffic	384	2.98	92.3
Total	**12,893**	**100.00 %**	

2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks.
2. Fair condition – moderate potholes or cracks.
3. Poor condition – significant or extensive potholes or cracks.

Statewide lane miles are considered "distressed lane miles" if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The State's established condition baseline and actual distressed lane miles from the last three complete pavement-condition surveys are shown in the following table.

Condition Assessment Date[1]	Established Condition Baseline Distressed Lane Miles (maximum)[2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
December 2006	18,000	13,845	27.9 %
March 2008	18,000	12,998	26.3
December 2011[3]	18,000	12,333	24.9

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

[3] The State's compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011. A survey was completed in December 2011 and the State will continue to use the modified approach for roadways.

The following table provides details on the State's actual distressed lane miles as of the last complete pavement- condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	37,185	—
Fair	2,486	2,486
Poor	9,847	9,847
Total	**49,518**	**12,333**

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year. Prior to the 2008-09 fiscal year, the State excluded the annual expenditures for one of its bridges from preservation costs. Beginning in the 2008-09 fiscal year, the State included the expenditures for the bridge in both budgeted and actual preservation costs and restated the costs for previous years.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table.

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2007	$ 2,694	$ 2,249
2008	2,956	1,871
2009	2,910	1,557
2010	2,162	640
2011	2,802	368

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Budgetary Comparison Schedule
General Fund and Major Special Revenue Funds

Year Ended June 30, 2011
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 11,509,000	$ 9,408,000	$ 9,613,595	$ 205,595
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	93,000	93,000	96,097	3,097
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	1,838,000	2,016,000	2,076,888	60,888
Vehicle license fees	1,506,311	1,393,311	1,366,483	(26,828)
Motor vehicle fuel tax	—	—	—	—
Personal income tax	47,784,000	51,945,000	49,602,618	(2,342,382)
Retail sales and use taxes	26,709,000	26,740,000	26,975,503	235,503
Other major taxes and licenses	319,521	319,221	335,335	16,114
Other revenues	3,025,931	3,025,931	2,066,515	(959,416)
Total revenues	**92,784,763**	**94,940,463**	**92,133,034**	**(2,807,429)**
EXPENDITURES				
State and consumer services	609,074	590,600	556,654	33,946
Business and transportation	494,065	493,790	493,679	111
Resources	1,223,899	1,177,651	1,067,318	110,333
Health and human services	28,966,812	29,075,611	26,772,957	2,302,654
Correctional programs	8,665,888	9,567,358	9,468,499	98,859
Education	45,079,575	43,767,239	43,749,141	18,098
General government:				
Tax relief	445,653	534,802	529,050	5,752
Debt service	5,013,571	5,018,950	4,940,066	78,884
Other general government	4,832,602	4,839,151	4,278,636	560,515
Total expenditures	**95,331,139**	**95,065,152**	**91,856,000**	**3,209,152**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	1,661,966	—
Transfers to other funds	—	—	(401,614)	—
Other additions and deductions	—	—	618,745	—
Total other financing sources (uses)	**—**	**—**	**1,879,097**	**—**
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	—	—	2,156,131	—
Fund balances, July 1, 2010	**—**	**—**	**(4,478,542)**	**—**
Fund balances, June 30, 2011	**$ —**	**$ —**	**$ (2,322,411)**	**$ —**

Federal				Transportation			
Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
61,973,830	61,973,830	61,973,830	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	4,984,050	5,734,941	5,705,528	(29,413)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,291,704	3,259,541	3,241,182	(18,359)
68	68	52	(16)	413,872	399,743	376,606	(23,137)
61,973,898	**61,973,898**	**61,973,882**	**(16)**	**8,689,626**	**9,394,225**	**9,323,316**	**(70,909)**
37,509	37,509	37,509	—	116,267	109,150	93,255	15,895
4,153,312	4,153,312	4,153,312	—	11,866,738	8,244,956	7,229,602	1,015,354
402,594	402,594	402,594	—	388,811	132,298	131,540	758
40,377,821	40,377,821	40,377,821	—	3,242	3,171	2,788	383
8,778	8,778	8,778	—	—	—	—	—
7,167,425	7,167,425	7,167,425	—	2,543	2,492	2,154	338
—	—	—	—	—	—	—	—
—	—	—	—	1,000	1,000	46	954
2,737,481	2,737,481	2,737,481	—	1,902,074	1,900,363	1,888,762	11,601
54,884,920	**54,884,920**	**54,884,920**	**—**	**14,280,675**	**10,393,430**	**9,348,147**	**1,045,283**
—	—	20,576,858	—	—	—	10,909,792	—
—	—	(27,643,483)	—	—	—	(12,365,008)	—
—	—	(22,285)	—	—	—	257,128	—
—	**—**	**(7,088,910)**	**—**	**—**	**—**	**(1,198,088)**	**—**
—	—	52	—	—	—	(1,222,919)	—
—	**—**	**10,559**	**—**	**—**	**—**	**28,224,297**	**—**
$ —	**$ —**	**$ 10,611**	**$ —**	**$ —**	**$ —**	**$ 27,001,378**	**$ —**

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2011
(amounts in thousands)

		Special Revenue Funds	
	General	Federal	Transportation
Budgetary fund balance reclassified into GAAP statement fund structure	**$ (2,322,411)**	**$ 10,611**	**$ 27,001,378**
Basis difference:			
Interfund receivables	47,304	—	2,447,657
Loans receivable	159,845	124,879	—
Interfund payables	(4,112,570)	—	—
Escheat property	(975,577)	—	—
Bonds authorized but unissued	—	—	(21,272,381)
Tax revenues	682,100	—	—
GASB 54 classification changes	122,719	2,482	—
Other	1,419	—	(253,697)
Timing difference:			
Liabilities budgeted in subsequent years	(13,542,070)	(16,418)	(155,725)
GAAP fund balance (deficit), June 30, 2011	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule, General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On a budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current-year expenditures for the General Fund and major special revenue funds as well as their related appropriations that are legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Comprehensive Annual Financial Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2400.121. This report includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the *Comprehensive Annual Financial Report Supplement* is available upon request from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Reconciliaton of Budgetary Basis With GAAP Basis

The reconciliation of Budgetary Basis fund balances of the General Fund and the major special revenue funds to GAAP Basis fund balances are presented on the previous page and are explained in the following paragraphs.

The beginning fund balances for the General Fund, Federal Fund, and Transportation Fund on the budgetary basis are restated for prior-year revenue adjustments and prior-year expenditure adjustments. A prior-year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior-year expenditure adjustment results when the actual amount paid in the current year differs from the prior-year accrual for appropriations whose ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $47 million increase to the fund balance in the General Fund and a $2.4 billion increase to the fund balance in the Transportation Fund. The adjustments related to loans receivable caused increases of $160 million in the General Fund and $125 million in the Federal Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $4.1 billion decrease to the budgetary fund balance in the General Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $975 million decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $21.3 billion decrease to the fund balance in the Transportation Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance increase of $682 million in the General Fund.

GASB Statement No. 54 Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Additional information on GASB 54 can be found in Note 1, Summary of Significant Accounting Policies, Section K. These reclassifications caused fund balance increases of $123 million in the General Fund and $2 million in the Federal Fund. The $123 million of fund balance is not considered part of the General Fund for any budgetary purposes or for the *Budgetary/Legal Basis Annual Report*.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increase of $1 million in the General Fund and a fund balance decrease of $254 million in the Transportation Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of $13.5 billion in the General Fund, a fund balance decrease of $16 million in the Federal Fund, and a fund balance decrease of $156 million in the Transportation Fund. The large decrease in the General Fund primarily consists of $7.5 billion for deferred apportionment payments to K-12 schools and community colleges, $2.6 billion in tax overpayments, $1.3 billion for medical assistance, $813 million for June 2011 payroll that was deferred to July 2011, and $418 million for pension contributions.

Combining Financial Statements and Schedules – Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's tax-supported activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Environmental and Natural Resources Fund** accounts for fees, bond proceeds, and other revenues that are used for maintaining the state's natural resources and improving the environmental quality of its air, land, and water.

The **Financing for Local Governments and the Public Fund** accounts for fees, bond proceeds, appropriations from the State, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 0.5% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance of effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for bond proceeds that are used to purchase Tobacco Revenue Settlements from the State.

(continued)

(continued)

The **Other Special Revenue Programs Fund** accounts for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

Debt service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation related general obligation bonds.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Prison Construction Fund** accounts for bond proceeds that are used to construct state prisons.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Natural Resources Acquisition and Enhancement Fund** accounts for bond proceeds and various revenues that are used to acquire or improve state parks, beaches, and other recreational areas.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

The *East Bay Building Authority* is an agreement with the City of Oakland.

The *Los Angeles Building Authority* is an agreement with the Community Redevelopment Agency of the City of Los Angeles.

The *San Francisco Building Authority* is an agreement with the San Francisco Redevelopment Agency of the City and County of San Francisco.

The *Oakland Building Authority* is an agreement with the Oakland Redevelopment Agency.

The *Riverside Building Authority* is an agreement with the County of Riverside and the Riverside County Redevelopment Agency.

The *San Bernardino Building Authority* is an agreement with the City of San Bernardino and the Redevelopment Agency of the City of San Bernardino.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public
ASSETS			
Cash and pooled investments	$ 598,145	$ 6,086,964	$ 2,402,273
Investments	—	—	—
Receivables (net)	39,078	445,773	23,262
Due from other funds	167,637	414,414	63,561
Due from other governments	14,428	37,934	3,645
Interfund receivables	555,733	1,621,926	1,043,694
Loans receivable	173,017	830,403	2,062,097
Other assets	509	—	—
Total assets	**$ 1,548,547**	**$ 9,437,414**	**$ 5,598,532**
LIABILITIES			
Accounts payable	$ 44,037	$ 431,998	$ 314,657
Due to other funds	26,980	34,708	1,033
Due to component units	—	—	—
Due to other governments	11,594	130,054	6,402
Interfund payables	1,283	9,872	—
Deposits	460	403	—
Advance collections	33,811	139,757	2,274
Interest payable	—	—	—
General obligation bonds payable	—	—	—
Other liabilities	33,933	7,317	655
Total liabilities	**152,098**	**754,109**	**325,021**
FUND BALANCES			
Nonspendable	—	—	—
Restricted	611,455	8,133,439	4,620,488
Committed	786,109	561,292	653,054
Assigned	—	—	—
Unassigned	(1,115)	(11,426)	(31)
Total fund balances	**1,396,449**	**8,683,305**	**5,273,511**
Total liabilities and fund balances	**$ 1,548,547**	**$ 9,437,414**	**$ 5,598,532**

Special Revenue							
Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue	
$ 273,220	$ 948,058	$ 845,816	$ 1,752,801	$ 145,698	$ 726,811	$ 13,779,786	
—	—	—	159,980	499,696	—	659,676	
69,184	3,709	30,323	353,441	2	130,075	1,094,847	
549	231,119	281,918	133,842	—	391,339	1,684,379	
870	—	3	21,473	—	24,852	103,205	
153,858	74,238	83,777	205,482	—	1,139,364	4,878,072	
—	—	14,830	—	—	18,450	3,098,797	
—	—	—	29,008	—	—	29,517	
$ 497,681	**$ 1,257,124**	**$ 1,256,667**	**$ 2,656,027**	**$ 645,396**	**$ 2,430,891**	$ 25,328,279	
$ 128,245	$ 5,956	$ 279,025	$ 242,655	$ 26	$ 165,578	$ 1,612,177	
41,426	—	2,551	14	—	14,408	121,120	
4,231	—	—	—	—	192	4,423	
70,471	1,206,648	13,153	331,689	—	272,443	2,042,454	
—	—	—	—	—	5,371	16,526	
—	—	—	452,031	—	16,132	469,026	
—	—	14,386	10,125	—	35,649	236,002	
—	—	—	—	25,616	—	25,616	
—	—	—	—	—	—	—	
8	—	—	97,239	—	13,395	152,547	
244,381	**1,212,604**	**309,115**	**1,133,753**	**25,642**	**523,168**	4,679,891	
—	—	—	39,448	—	—	39,448	
253,300	44,520	916,520	978,418	619,754	1,540,318	17,718,212	
—	—	31,032	235,520	—	371,916	2,638,923	
—	—	—	268,888	—	—	268,888	
—	—	—	—	—	(4,511)	(17,083)	
253,300	**44,520**	**947,552**	**1,522,274**	**619,754**	**1,907,723**	20,648,388	
$ 497,681	**$ 1,257,124**	**$ 1,256,667**	**$ 2,656,027**	**$ 645,396**	**$ 2,430,891**	$ 25,328,279	

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Debt Service		
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service
ASSETS			
Cash and pooled investments	$ 1,027,437	$ —	$ 1,027,437
Investments	—	—	—
Receivables (net)	—	—	—
Due from other funds	7,720	—	7,720
Due from other governments	—	—	—
Interfund receivables	—	—	—
Loans receivable	—	—	—
Other assets	—	—	—
Total assets	**$ 1,035,157**	**$ —**	**$ 1,035,157**
LIABILITIES			
Accounts payable	$ 19	$ —	$ 19
Due to other funds	4,912	—	4,912
Due to component units	—	—	—
Due to other governments	—	—	—
Interfund payables	—	—	—
Deposits	—	—	—
Advance collections	—	—	—
Interest payable	161,684	—	161,684
General obligation bonds payable	383,830	—	383,830
Other liabilities	—	—	—
Total liabilities	**550,445**	**—**	**550,445**
FUND BALANCES			
Nonspendable	—	—	—
Restricted	484,712	—	484,712
Committed	—	—	—
Assigned	—	—	—
Unassigned	—	—	—
Total fund balances	**484,712**	**—**	**484,712**
Total liabilities and fund balances	**$ 1,035,157**	**$ —**	**$ 1,035,157**

Capital Projects							
						Building Authorities	
Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles	
$ 2,953	$ 655,761	$ 41,417	$ 414,498	$ 498,956	$ 20,755	$ 10,443	
—	—	—	—	—	—	—	
—	—	5	—	—	—	—	
—	548	14,359	507	—	2,278	2,611	
—	—	—	—	12,682	—	—	
—	—	2,518	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
$ 2,953	**$ 656,309**	**$ 58,299**	**$ 415,005**	**$ 511,638**	**$ 23,033**	**$ 13,054**	
$ 11	$ 49,123	$ 766	$ 3,172	$ 2,293	$ —	$ —	
4	2,270	896	—	2,371	—	—	
—	714	—	19	—	—	—	
—	—	1	—	7,001	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
—	—	52	—	—	—	—	
—	—	—	—	—	629	450	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
15	**52,107**	**1,715**	**3,191**	**11,665**	**629**	**450**	
—	—	—	—	—	—	—	
2,938	604,202	44,989	411,814	499,973	22,404	12,604	
—	—	11,595	—	—	—	—	
—	—	—	—	—	—	—	
—	—	—	—	—	—	—	
2,938	**604,202**	**56,584**	**411,814**	**499,973**	**22,404**	**12,604**	
$ 2,953	**$ 656,309**	**$ 58,299**	**$ 415,005**	**$ 511,638**	**$ 23,033**	**$ 13,054**	

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Capital Projects		
	Building Authorities		
	San Francisco	Oakland	Riverside
ASSETS			
Cash and pooled investments	$ 21,554	$ 7,139	$ 978
Investments	—	—	—
Receivables (net)	—	—	—
Due from other funds	9,934	2,387	381
Due from other governments	—	—	—
Interfund receivables	—	—	—
Loans receivable	—	—	—
Other assets	—	—	—
Total assets	**$ 31,488**	**$ 9,526**	**$ 1,359**
LIABILITIES			
Accounts payable	$ —	$ —	$ —
Due to other funds	—	—	—
Due to component units	—	—	—
Due to other governments	—	—	—
Interfund payables	—	—	—
Deposits	—	—	—
Advance collections	—	—	—
Interest payable	941	1,193	114
General obligation bonds payable	—	—	—
Other liabilities	—	—	—
Total liabilities	**941**	**1,193**	**114**
FUND BALANCES			
Nonspendable	—	—	—
Restricted	30,547	8,333	1,245
Committed	—	—	—
Assigned	—	—	—
Unassigned	—	—	—
Total fund balances	**30,547**	**8,333**	**1,245**
Total liabilities and fund balances	**$ 31,488**	**$ 9,526**	**$ 1,359**

Capital Projects				
Building Authorities				
San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental	
$ 9,376	$ 13,060	$ 1,696,890	$ 16,504,113	
—	—	—	659,676	
—	—	5	1,094,852	
1,832	17	34,854	1,726,953	
—	—	12,682	115,887	
—	927	3,445	4,881,517	
—	—	—	3,098,797	
—	—	—	29,517	
$ 11,208	**$ 14,004**	$ 1,747,876	$ 28,111,312	
$ —	$ 59	$ 55,424	$ 1,667,620	
—	—	5,541	131,573	
—	—	733	5,156	
—	—	7,002	2,049,456	
—	—	—	16,526	
—	—	—	469,026	
—	—	52	236,054	
167	—	3,494	190,794	
—	—	—	383,830	
—	—	—	152,547	
167	**59**	72,246	5,302,582	
—	—	—	39,448	
11,041	11,286	1,661,376	19,864,300	
—	2,659	14,254	2,653,177	
—	—	—	268,888	
—	—	—	(17,083)	
11,041	**13,945**	1,675,630	22,808,730	
$ 11,208	**$ 14,004**	$ 1,747,876	$ 28,111,312	

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public
REVENUES			
Personal income taxes	$ —	$ —	$ 905,371
Sales and use taxes	—	—	—
Insurance taxes	—	—	—
Other taxes	88,101	198,697	712,883
Intergovernmental	—	—	7,705
Licenses and permits	320,183	353,011	18,702
Charges for services	27,623	103,596	4,603
Fees	851,057	2,315,731	651
Penalties	11,352	21,545	13,410
Investment and interest	7,515	76,101	18,050
Other	12,447	119,234	465,292
Total revenues	**1,318,278**	**3,187,915**	**2,146,667**
EXPENDITURES			
Current:			
General government	463,171	80,267	590,048
Education	15,693	26,135	64,219
Health and human services	224,213	240,906	1,759,938
Resources	47,451	3,521,815	80,050
State and consumer services	246,349	72,856	160
Business and transportation	207,414	9,915	247,532
Correctional programs	—	—	93,454
Capital outlay	—	337,979	—
Debt service:			
Bond and commercial paper retirement	—	16,207	—
Interest and fiscal charges	—	4,595	51
Total expenditures	**1,204,291**	**4,310,675**	**2,835,452**
Excess (deficiency) of revenues over (under) expenditures	113,987	(1,122,760)	(688,785)
OTHER FINANCING SOURCES (USES)			
General obligation bonds and commercial paper issued	—	1,293,110	138,345
Premium on bonds issued	—	409	7
Transfers in	22,512	201,959	326,147
Transfers out	(69,583)	(22,630)	(24,280)
Total other financing sources (uses)	**(47,071)**	**1,472,848**	**440,219**
Net change in fund balances	66,916	350,088	(248,566)
Fund balances, July 1, 2010	**1,329,533** *	**8,333,217** *	**5,522,077** *
Fund balances, June 30, 2011	**$ 1,396,449**	**$ 8,683,305**	**$ 5,273,511**

* Restated

Special Revenue						
Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
$ —	$ —	$ —	$ —	$ —	$ —	$ 905,371
—	4,930,887	—	—	—	—	4,930,887
—	—	235,077	—	—	—	235,077
795,787	—	—	—	—	270	1,795,738
—	—	—	1,304,047	—	—	1,311,752
—	1,376,529	1	—	—	10,972	2,079,398
1,480	—	92	47,278	—	156,261	340,933
—	—	4,177,249	169,034	—	886,296	8,400,018
—	—	690	482,467	—	279,851	809,315
2,421	1,117	4,061	7,487	1,225	7,517	125,494
120	—	668,590	172,001	360,749	302,200	2,100,633
799,808	**6,308,533**	**5,085,760**	**2,182,314**	**361,974**	**1,643,367**	23,034,616
15,018	2,837,455	257	3,476,132	—	813,209	8,275,557
5,560	—	206,566	—	—	7,148	325,321
750,341	3,840,858	8,902,098	—	—	556,667	16,275,021
15,085	—	—	—	—	36,809	3,701,210
—	—	—	176	—	182,452	501,993
—	—	—	—	—	7,213	472,074
—	23,995	—	—	—	19,143	136,592
—	—	—	—	—	—	337,979
—	—	—	—	60,230	—	76,437
—	—	18	—	315,268	—	319,932
786,004	**6,702,308**	**9,108,939**	**3,476,308**	**375,498**	**1,622,641**	30,422,116
13,804	(393,775)	(4,023,179)	(1,293,994)	(13,524)	20,726	(7,387,500)
—	—	47,155	—	—	—	1,478,610
—	—	18	—	—	—	434
—	401,773	4,203,554	1,522,965	—	34,134	6,713,044
(83,178)	—	—	—	—	(135,165)	(334,836)
(83,178)	**401,773**	**4,250,727**	**1,522,965**	**—**	**(101,031)**	7,857,252
(69,374)	7,998	227,548	228,971	(13,524)	(80,305)	469,752
322,674	**36,522**	**720,004** *	**1,293,303**	**633,278**	**1,988,028** *	20,178,636
$ 253,300	**$ 44,520**	**$ 947,552**	**$ 1,522,274**	**$ 619,754**	**$ 1,907,723**	$ 20,648,388

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Debt Service		
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service
REVENUES			
Personal income taxes	$ —	$ —	$ —
Sales and use taxes	1,216,641	—	1,216,641
Insurance taxes	—	—	—
Other taxes	—	—	—
Intergovernmental	—	—	—
Licenses and permits	—	—	—
Charges for services	167	—	167
Fees	—	—	—
Penalties	—	—	—
Investment and interest	3,005	—	3,005
Other	8,617	—	8,617
Total revenues	**1,228,430**	**—**	1,228,430
EXPENDITURES			
Current:			
General government	29,237	—	29,237
Education	—	—	—
Health and human services	—	—	—
Resources	—	—	—
State and consumer services	—	—	—
Business and transportation	—	—	—
Correctional programs	—	—	—
Capital outlay	—	—	—
Debt service:			
Bond and commercial paper retirement	933,000	198,098	1,131,098
Interest and fiscal charges	330,253	516,845	847,098
Total expenditures	**1,292,490**	**714,943**	2,007,433
Excess (deficiency) of revenues over (under) expenditures	(64,060)	(714,943)	(779,003)
OTHER FINANCING SOURCES (USES)			
General obligation bonds and commercial paper issued	—	—	—
Premium on bonds issued	—	—	—
Transfers in	—	714,943	714,943
Transfers out	—	—	—
Total other financing sources (uses)	**—**	**714,943**	714,943
Net change in fund balances	(64,060)	—	(64,060)
Fund balances, July 1, 2010	**548,772**	**—**	548,772
Fund balances, June 30, 2011	**$ 484,712**	**$ —**	$ 484,712

* Restated

Capital Projects						
					Building Authorities	
Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles
$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
9	5,025	32	2,438	14,521	103	107
—	—	357	—	—	—	—
9	**5,025**	**389**	**2,438**	**14,521**	**103**	**107**
—	—	—	180,975	—	—	—
—	—	—	—	2,547,624	—	—
—	—	—	—	—	—	—
—	—	2,078	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
714	520,761	34,251	400	16,077	68	47
—	—	—	—	—	7,538	19,880
4	30	—	2	411	1,969	2,800
718	**520,791**	**36,329**	**181,377**	**2,564,112**	**9,575**	**22,727**
(709)	(515,766)	(35,940)	(178,939)	(2,549,591)	(9,472)	(22,620)
1,005	78,240	—	5,440	1,493,405	—	—
—	30	—	2	561	—	—
—	—	37,608	—	15	9,669	10,002
—	(112,025)	(1,775)	—	(172)	—	—
1,005	**(33,755)**	**35,833**	**5,442**	**1,493,809**	**9,669**	**10,002**
296	(549,521)	(107)	(173,497)	(1,055,782)	197	(12,618)
2,642	**1,153,723**	**56,691**	**585,311** *	**1,555,755** *	**22,207**	**25,222**
$ 2,938	**$ 604,202**	**$ 56,584**	**$ 411,814**	**$ 499,973**	**$ 22,404**	**$ 12,604**

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Capital Projects		
	Building Authorities		
	San Francisco	**Oakland**	**Riverside**
REVENUES			
Personal income taxes	$ —	$ —	$ —
Sales and use taxes	—	—	—
Insurance taxes	—	—	—
Other taxes	—	—	—
Intergovernmental	—	—	—
Licenses and permits	—	—	—
Charges for services	—	—	—
Fees	—	—	—
Penalties	—	—	—
Investment and interest	103	36	5
Other	—	422	—
Total revenues	**103**	**458**	**5**
EXPENDITURES			
Current:			
General government	—	—	—
Education	—	—	—
Health and human services	—	—	—
Resources	—	—	—
State and consumer services	—	—	—
Business and transportation	—	—	—
Correctional programs	—	—	—
Capital outlay	2,580	—	—
Debt service:			
Bond and commercial paper retirement	16,700	4,605	510
Interest and fiscal charges	7,386	5,347	467
Total expenditures	**26,666**	**9,952**	**977**
Excess (deficiency) of revenues over (under) expenditures	(26,563)	(9,494)	(972)
OTHER FINANCING SOURCES (USES)			
General obligation bonds and commercial paper issued	—	—	—
Premium on bonds issued	—	—	—
Transfers in	27,638	9,560	987
Transfers out	—	—	—
Total other financing sources (uses)	**27,638**	**9,560**	**987**
Net change in fund balances	1,075	66	15
Fund balances, July 1, 2010	**29,472**	**8,267**	**1,230**
Fund balances, June 30, 2011	**$ 30,547**	**$ 8,333**	**$ 1,245**

* Restated

Capital Projects			
Building Authorities			
San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
$ —	$ —	$ —	$ 905,371
—	—	—	6,147,528
—	—	—	235,077
—	—	—	1,795,738
—	—	—	1,311,752
—	—	—	2,079,398
—	—	—	341,100
—	—	—	8,400,018
—	—	—	809,315
46	65	22,490	150,989
—	249	1,028	2,110,278
46	**314**	23,518	24,286,564
—	—	180,975	8,485,769
—	—	2,547,624	2,872,945
—	—	—	16,275,021
—	—	2,078	3,703,288
—	—	—	501,993
—	—	—	472,074
—	—	—	136,592
—	10,503	585,401	923,380
2,725	—	51,958	1,259,493
2,103	—	20,519	1,187,549
4,828	**10,503**	3,388,555	35,818,104
(4,782)	(10,189)	(3,365,037)	(11,531,540)
—	—	1,578,090	3,056,700
—	—	593	1,027
4,912	—	100,391	7,528,378
—	—	(113,972)	(448,808)
4,912	**—**	1,565,102	10,137,297
130	(10,189)	(1,799,935)	(1,394,243)
10,911	**24,134**	3,475,565	24,202,973
$ 11,041	**$ 13,945**	$ 1,675,630	$ 22,808,730

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Cost Funds*

Year Ended June 30, 2011
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 802,687	$ 810,710	$ 8,023
Vehicle license fees	1,967,638	1,814,171	(153,467)
Personal income tax	891,000	905,813	14,813
Retail sales and use taxes	3,939,811	6,468,089	2,528,278
Other major taxes and licenses	328,851	389,051	60,200
Other revenues	12,731,164	12,984,848	253,684
Total revenues	**20,661,151**	**23,372,682**	**2,711,531**
EXPENDITURES			
State and consumer services	598,436	523,276	75,160
Business and transportation	896,134	864,470	31,664
Resources	3,427,255	3,181,370	245,885
Health and human services	15,488,328	15,238,090	250,238
Correctional programs	46,725	45,622	1,103
Education	83,753	65,864	17,889
General government	6,233,959	5,763,788	470,171
Total expenditures	**26,774,590**	**25,682,480**	**1,092,110**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	17,046,712	—
Transfers to other funds	—	(15,173,638)	—
Other additions and deductions	—	(1,152,860)	—
Total other financing sources (uses)	**—**	**720,214**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	(1,589,584)	—
Fund balances, July 1, 2010 (restated)	**—**	**10,933,832**	**—**
Fund balances, June 30, 2011	**$ —**	**$ 9,344,248**	**$ —**

* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds include the General Fund, most of the funds that comprise the Transportation Fund, and many other funds that make up the nonmajor governmental funds reported in these financial statements. Governmental cost funds derive their revenue from taxes, licenses, and fees that support the general operations of the State. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. Nongovernmental cost funds consist of funds that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues and mainly represent the proprietary and fiduciary funds reported in these financial statements. Expenditures of these funds do not represent a cost of government and most of the nongovernmental cost funds are not included in the annual appropriated budget. Therefore, the expenditures of these funds are not included in this schedule. The Federal Fund is one nongovernmental cost fund that is included in the annual appropriated budget. The Budgetary Comparison Schedule for the General Fund, Federal Fund, and Transportation Fund is included in the Required Supplementary Information section; the remaining governmental cost funds are reflected in this schedule. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, notes to the Required Supplementary Information, and the Comprehensive Annual Financial Report Supplement.

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Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Office of Systems Integration Fund** accounts for project management service costs associated with automation projects for the Department of Social Services and the Employment Development Department.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Assets

Internal Service Funds

June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving
ASSETS		
Current assets:		
Cash and pooled investments	$ 224,314	$ 48,198
Receivables (net)	1,769	20,464
Due from other funds	67,506	38,181
Due from other governments	1,190	8,138
Prepaid items	12	82,266
Inventories	—	23,266
Total current assets	294,791	220,513
Noncurrent assets:		
Interfund receivables	—	—
Capital assets:		
Land	—	—
Buildings and other depreciable property	412	150,016
Intangible assets – amortizable	—	7,541
Less: accumulated depreciation/amortization	(412)	(121,576)
Construction in progress	—	—
Total noncurrent assets	—	35,981
Total assets	**$ 294,791**	**$ 256,494**
LIABILITIES		
Current liabilities:		
Accounts payable	$ 23,040	$ 3,815
Due to other funds	351	85,110
Due to component units	—	—
Due to other governments	—	—
Deposits	—	836
Contracts and notes payable	—	413
Advance collections	280,042	19,889
Current portion of long-term obligations	—	745
Other liabilities	365	140
Total current liabilities	303,798	110,948
Noncurrent liabilities:		
Interfund payables	—	4,067
Compensated absences payable	7,656	55,165
Net other postemployment benefits obligation	7,501	122,414
Other noncurrent liabilities	1,064	16,312
Total noncurrent liabilities	16,221	197,958
Total liabilities	**320,019**	**308,906**
NET ASSETS		
Investment in capital assets, net of related debt	—	35,237
Unrestricted	(25,228)	(87,649)
Total net assets (deficits)	**(25,228)**	**(52,412)**
Total liabilities and net assets	**$ 294,791**	**$ 256,494**

Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information Systems	Other Internal Service Programs	Total
$ 160,146	$ 5,442	$ 32,984	$ 2,987	$ 14,044	$ 218,989	$ 707,104
1,031	27,461	11,701	56,217	1	582	119,226
34,866	39,644	88,829	74,339	1,619	54,853	399,837
61	—	815	—	—	87	10,291
262	476	2,993	16,789	2,353	2,362	107,513
42,726	—	25,430	906	—	—	92,328
239,092	73,023	162,752	151,238	18,017	276,873	1,436,299
—	—	—	—	—	202,245	202,245
—	—	—	—	—	2,058	2,058
144,808	—	229,386	26,396	386	10,101	561,505
3,644	—	36,849	—	—	—	48,034
(104,035)	—	(205,899)	(26,396)	(167)	(5,478)	(463,963)
433	—	18,762	—	—	219	19,414
44,850	—	79,098	—	219	209,145	369,293
$ 283,942	**$ 73,023**	**$ 241,850**	**$ 151,238**	**$ 18,236**	**$ 486,018**	$ 1,805,592
$ 17,626	$ 68,104	$ 32,189	$ 17,229	$ 7,642	$ 37,626	$ 207,271
15	90	—	—	910	60,357	146,833
—	—	—	—	—	739	739
—	530	—	—	—	17	547
—	—	—	—	—	—	836
—	—	15,024	—	—	—	15,437
2,560	—	36	871	—	—	303,398
12,154	—	4,163	—	167	—	17,229
10,040	—	32	676	—	4,113	15,366
42,395	68,724	51,444	18,776	8,719	102,852	707,656
—	—	1,597	94,993	37,650	782	139,089
—	—	20,778	37,469	782	1,338	123,188
25,224	5,647	27,830	—	—	32,694	221,310
12,496	—	10,122	—	—	—	39,994
37,720	5,647	60,327	132,462	38,432	34,814	523,581
80,115	**74,371**	**111,771**	**151,238**	**47,151**	**137,666**	1,231,237
44,850	—	54,137	—	—	7,071	141,295
158,977	(1,348)	75,942	—	(28,915)	341,281	433,060
203,827	**(1,348)**	**130,079**	**—**	**(28,915)**	**348,352**	574,355
$ 283,942	**$ 73,023**	**$ 241,850**	**$ 151,238**	**$ 18,236**	**$ 486,018**	$ 1,805,592

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving
OPERATING REVENUES		
Services and sales	$ 304,843	$ 744,453
Total operating revenues	**304,843**	**744,453**
OPERATING EXPENSES		
Personal services	31,228	237,885
Supplies	—	—
Services and charges	270,316	486,538
Depreciation	—	13,122
Interest expense	—	62
Total operating expenses	**301,544**	**737,607**
Operating income (loss)	3,299	6,846
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	—	—
Interest expense and fiscal charges	—	—
Other	—	(46,655)
Total nonoperating revenues (expenses)	**—**	**(46,655)**
Income (loss) before capital contributions and transfers	3,299	(39,809)
Transfers in	—	397
Transfers out	—	(45,769)
Change in net assets	3,299	(85,181)
Total net assets (deficit), July 1, 2010	**(28,527)**	**32,769**
Total net assets (deficit), June 30, 2011	**$ (25,228)**	**$ (52,412)**

Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
$ 216,179	$ 111,666	$ 332,236	$ 325,723	$ —	$ 363,413	$ 2,398,513
216,179	**111,666**	**332,236**	**325,723**	**—**	**363,413**	2,398,513
68,908	1,953	124,169	318,067	4,503	19,278	805,991
2,124	—	—	5,408	—	214	7,746
127,792	109,935	179,657	119	10,639	253,645	1,438,641
7,453	—	21,085	2,129	167	225	44,181
—	—	—	—	—	—	62
206,277	**111,888**	**324,911**	**325,723**	**15,309**	**273,362**	2,296,621
9,902	(222)	7,325	—	(15,309)	90,051	101,892
235	—	181	—	—	447	863
(14)	—	(891)	—	—	—	(905)
(1,842)	—	45,829	—	—	—	(2,668)
(1,621)	**—**	**45,119**	**—**	**—**	**447**	(2,710)
8,281	(222)	52,444	—	(15,309)	90,498	99,182
—	—	—	—	—	—	397
—	—	—	—	—	(8,655)	(54,424)
8,281	(222)	52,444	—	(15,309)	81,843	45,155
195,546	**(1,126)**	**77,635**	**—**	**(13,606)**	**266,509**	529,200
$ 203,827	**$ (1,348)**	**$ 130,079**	**$ —**	**$ (28,915)**	**$ 348,352**	$ 574,355

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	$ 295,076	$ 769,815
Receipts from interfund services provided	48,161	—
Payments to suppliers	(293,030)	(493,860)
Payments to employees	(26,091)	(205,219)
Payments for interfund services used	—	(38,573)
Other receipts (payments)	(668)	(2,034)
Net cash provided by (used in) operating activities	**23,448**	**30,129**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund payables and loans payable	—	2,267
Interest paid on operating debt	—	—
Transfers in	—	397
Transfers out	—	(92,424)
Net cash provided by (used in) noncapital financing activities	**—**	**(89,760)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	—	(2,781)
Proceeds from sale of capital assets	—	34,912
Principal paid on notes payable and commercial paper	—	—
Interest paid	—	(61)
Net cash used in capital and related financing activities	**—**	**32,070**
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in interfund receivables and loans receivable	—	—
Earnings on investments	—	—
Net cash provided by (used in) investing activities	**—**	**—**
Net increase (decrease) in cash and pooled investments	23,448	(27,561)
Cash and pooled investments at July 1, 2010	**200,866**	**75,759**
Cash and pooled investments at June 30, 2011	**$ 224,314**	**$ 48,198**

Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
$ 217,239	$ 27,924	$ 284,085	$ 316,898	$ 2	$ 363,454	$ 2,274,493
1,765	43,255	—	—	—	11,775	104,956
(125,149)	(82,351)	(168,181)	—	(8,244)	(266,678)	(1,437,493)
(53,276)	—	(108,197)	(310,539)	(3,721)	(9,242)	(716,285)
(12,749)	—	—	(719)	(756)	(19,546)	(72,343)
(104)	(308)	—	(18,488)	—	(17,621)	(39,223)
27,726	**(11,480)**	**7,707**	**(12,848)**	**(12,719)**	**62,142**	114,105
(2,399)	—	—	—	—	—	(132)
(14)	—	—	—	—	—	(14)
—	—	5,998	—	—	—	6,395
—	—	—	—	—	(8,655)	(101,079)
(2,413)	**—**	**5,998**	**—**	**—**	**(8,655)**	(94,830)
(6,689)	—	(12,018)	(2,128)	(219)	—	(23,835)
552	—	—	—	—	174	35,638
—	—	(16,222)	—	—	—	(16,222)
—	—	(891)	—	—	—	(952)
(6,137)	**—**	**(29,131)**	**(2,128)**	**(219)**	**174**	(5,371)
—	—	(2,500)	—	—	(106,669)	(109,169)
233	—	190	—	—	447	870
233	**—**	**(2,310)**	**—**	**—**	**(106,222)**	(108,299)
19,409	(11,480)	(17,736)	(14,976)	(12,938)	(52,561)	(94,395)
140,737	**16,922**	**50,720**	**17,963**	**26,982**	**271,550**	801,499
$ 160,146	**$ 5,442**	**$ 32,984**	**$ 2,987**	**$ 14,044**	**$ 218,989**	$ 707,104

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ 3,299	$ 6,846
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest expense on operating debt	—	62
Depreciation	—	13,122
Change in assets and liabilities:		
Receivables	1,864	21,066
Due from other funds	51,836	20,541
Due from other governments	(65)	714
Prepaid items	25	(8,821)
Inventories	—	8,700
Accounts payable	(18,026)	(7,201)
Due to other funds	(6,107)	(59,114)
Due to component units	—	—
Due to other governments	—	—
Deposits	—	206
Contracts and notes payable	—	(1,061)
Advance collections	(11,632)	4,296
Other current liabilities	(602)	30
Interfund payables	—	—
Benefits payables	—	—
Compensated absences payable	11	(582)
Capital lease obligations	—	(4,893)
Other noncurrent liabilities	2,845	36,218
Total adjustments	20,149	23,283
Net cash provided by (used in) operating activities	**$ 23,448**	**$ 30,129**
Noncash investing, capital, and financing activities		
Capital acquisitions financed through notes payable	$ —	$ —

Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
$ 9,902	$ (222)	$ 7,325	$ —	$ (15,309)	$ 90,051	$ 101,892
(104)	—	—	—	—	—	(42)
7,453	—	21,085	2,129	167	225	44,181
(34)	(25,112)	(1,324)	(8,825)	2	41	(12,322)
(51)	43,280	(37,110)	9,086	(3,123)	(4,456)	80,003
339	—	(511)	—	—	(75)	402
(37)	(262)	563	439	(2,353)	1,393	(9,053)
331	—	173	(46)	—	—	9,158
(4,834)	28,356	10,164	(14,186)	4,748	(14,731)	(15,710)
(116)	(25)	595	(9,805)	2,367	(13,694)	(85,899)
—	—	—	—	—	12	12
—	530	—	—	—	(205)	325
—	—	(5,900)	—	—	—	(5,694)
—	—	—	—	—	—	(1,061)
(2,194)	(59,978)	(3,306)	—	—	—	(72,814)
10,035	—	35	356	—	—	9,854
—	—	—	476	—	—	476
—	—	—	—	—	(6,044)	(6,044)
766	—	9,929	7,528	782	89	18,523
—	—	—	—	—	—	(4,893)
6,270	1,953	5,989	—	—	9,536	62,811
17,824	(11,258)	382	(12,848)	2,590	(27,909)	12,213
$ 27,726	**$ (11,480)**	**$ 7,707**	**$ (12,848)**	**$ (12,719)**	**$ 62,142**	$ 114,105
						(concluded)
$ —	$ —	$ 6,412	$ —	$ —	$ —	$ 6,412

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Assets

Nonmajor Enterprise Funds

June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 201,621
Restricted assets:		
Cash and pooled investments	3,815	63,565
Due from other governments	—	65,598
Net investment in direct financing leases	16,946	—
Receivables (net)	3,396	—
Due from other funds	34	4,490
Due from other governments	—	162,717
Prepaid items	—	—
Inventories	—	—
Other current assets	—	55
Total current assets	24,191	498,046
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	15,386	—
Investments	11,697	—
Loans receivable	—	238,597
Investments	—	—
Net investment in direct financing leases	38,648	—
Interfund receivables	—	2,202
Loans receivable	—	2,577,673
Deferred charges	48	146
Capital assets:		
Land	—	—
Buildings and other depreciable property	—	—
Intangible assets – amortizable	—	—
Less: accumulated depreciation/amortization	—	—
Other noncurrent assets	—	—
Total noncurrent assets	65,779	2,818,618
Total assets	**$ 89,970**	**$ 3,316,664**

Housing Loan	Other Enterprise Programs	Total
$ 108,071	$ 146,995	$ 456,687
—	—	67,380
—	—	65,598
—	—	16,946
50,555	2,664	56,615
143	1,662	6,329
—	3,609	166,326
—	16	16
—	3,188	3,188
—	83	138
158,769	158,217	839,223
—	—	15,386
—	—	11,697
—	—	238,597
32,247	—	32,247
—	—	38,648
11,544	130,232	143,978
1,285,730	121,805	3,985,208
8,476	—	8,670
443	829	1,272
15,884	54,442	70,326
—	1,149	1,149
(15,716)	(48,965)	(64,681)
24,150	—	24,150
1,362,758	259,492	4,506,647
$ 1,521,527	**$ 417,709**	$ 5,345,870

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control
LIABILITIES		
Current liabilities:		
Accounts payable	$ —	$ —
Due to other funds	—	393
Due to other governments	—	—
Deferred revenue	—	74
Deposits	—	—
Advance collections	—	—
Interest payable	301	1,632
Current portion of long-term obligations	16,933	24,951
Other current liabilities	—	—
Total current liabilities	17,234	27,050
Noncurrent liabilities:		
Compensated absences payable	—	—
General obligation bonds payable	—	—
Revenue bonds payable	37,829	116,474
Net other postemployment benefits obligation	—	—
Other noncurrent liabilities	—	212
Total noncurrent liabilities	37,829	116,686
Total liabilities	**55,063**	**143,736**
NET ASSETS		
Investment in capital assets, net of related debt	—	—
Restricted – expendable:		
Debt service	34,907	47,850
Security for revenue bonds	—	304,195
Other purposes	—	—
Total expendable	34,907	352,045
Unrestricted	—	2,820,883
Total net assets	**34,907**	**3,172,928**
Total liabilities and net assets	**$ 89,970**	**$ 3,316,664**

Housing Loan	Other Enterprise Programs	Total
$ 793	$ 51,353	$ 52,146
—	246	639
—	22	22
—	—	74
—	82	82
—	193	193
15,317	—	17,250
47,020	7,065	95,969
—	153	153
63,130	59,114	166,528
—	2,646	2,646
756,184	—	756,184
541,656	—	695,959
878	3,714	4,592
—	106,785	106,997
1,298,718	113,145	1,566,378
1,361,848	**172,259**	1,732,906
611	5,078	5,689
—	—	82,757
—	—	304,195
159,068	198,637	357,705
159,068	198,637	744,657
—	41,735	2,862,618
159,679	**245,450**	3,612,964
$ 1,521,527	**$ 417,709**	$ 5,345,870

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control
OPERATING REVENUES		
Services and sales	$ —	$ 6,372
Investment and interest	568	48,231
Rent	9,930	—
Other	—	—
Total operating revenues	**10,498**	**54,603**
OPERATING EXPENSES		
Personal services	—	2,476
Services and charges	681	—
Depreciation	—	—
Interest expense	8,878	—
Amortization (recovery) of deferred charges	31	—
Other	—	2,400
Total operating expenses	**9,590**	**4,876**
Operating income (loss)	908	49,727
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	—	1,354
Interest expense and fiscal charges	—	(5,996)
Other	—	(81)
Total nonoperating revenues (expenses)	**—**	**(4,723)**
Income (loss) before capital contributions and transfers	908	45,004
Capital contributions	—	86,272
Transfers out	—	—
Change in net assets	908	131,276
Total net assets, July 1, 2010	**33,999**	**3,041,652**
Total net assets, June 30, 2011	**$ 34,907**	**$ 3,172,928**

*Restated

Housing Loan	Other Enterprise Programs	Total
$ 9,150	$ 95,649	$ 111,171
73,869	1,109	123,777
—	6,336	16,266
4,063	—	4,063
87,082	**103,094**	255,277
8,952	5,246	16,674
6,850	110,180	117,711
70	2,580	2,650
72,278	—	81,156
2,763	—	2,794
—	—	2,400
90,913	**118,006**	223,385
(3,831)	(14,912)	31,892
2,142	877	4,373
—	—	(5,996)
(13,754)	1,704	(12,131)
(11,612)	**2,581**	(13,754)
(15,443)	(12,331)	18,138
—	—	86,272
—	(36,349)	(36,349)
(15,443)	(48,680)	68,061
175,122	**294,130** *	3,544,903
$ 159,679	**$ 245,450**	$ 3,612,964

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employees	$ —	$ 50,590
Receipts from interfund services provided	—	—
Payments to suppliers	(681)	(2,741)
Payments to employees	—	(2,476)
Payments for interfund services used	—	(6)
Claims paid to other than employees	—	—
Other receipts (payments)	20,928	(86,447)
Net cash provided by (used in) operating activities	**20,247**	**(41,080)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Change in interfund payables and loans payable	—	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(19,995)	(24,390)
Interest paid on operating debt	—	(7,081)
Transfers in	—	—
Transfers out	—	—
Net cash provided by (used in) noncapital financing activities	**(19,995)**	**(31,471)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Acquisition of capital assets	—	—
Proceeds from sale of capital assets	—	—
Grants received	—	91,120
Net cash provided by (used in) capital and related financing activities	**—**	**91,120**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	—	—
Change in interfund receivables and loans receivable	—	(2,117)
Earnings on investments	—	1,405
Net cash provided by (used in) investing activities	**—**	**(712)**
Net increase (decrease) in cash and pooled investments	252	17,857
Cash and pooled investments at July 1, 2010	**18,949**	**247,329**
Cash and pooled investments at June 30, 2011	**$ 19,201**	**$ 265,186**

*Restated

Housing Loan	Other Enterprise Programs	Total
$ 8,593	$ 101,238	$ 160,421
—	1,250	1,250
(15,043)	(127,721)	(146,186)
(8,952)	(4,646)	(16,074)
—	(3,365)	(3,371)
—	(2)	(2)
165,391	(10,298)	89,574
149,989	**(43,544)**	85,612
32,746	—	32,746
(202,750)	—	(202,750)
(130,770)	—	(175,155)
—	—	(7,081)
49	—	49
(2,172)	(36,349)	(38,521)
(302,897)	**(36,349)**	(390,712)
—	80	80
(176)	(82)	(258)
—	3,152	3,152
—	—	91,120
(176)	**3,150**	94,094
35,666	—	35,666
(35,279)	61,825	24,429
2,142	877	4,424
2,529	**62,702**	64,519
(150,555)	(14,041)	(146,487)
258,626	**161,036** *	685,940
$ 108,071	**$ 146,995**	$ 539,453

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ 908	$ 49,727
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	—	—
Provisions and allowances	—	—
Amortization of discounts	87	—
Amortization of deferred charges	4,135	—
Other	359	(5,567)
Change in assets and liabilities:		
Receivables	—	—
Due from other funds	4	(6)
Due from other governments	—	374
Prepaid items	—	—
Inventories	—	—
Net investment in direct financing leases	14,844	—
Other current assets	—	—
Loans receivable	—	(85,184)
Interfund receivables	—	—
Accounts payable	—	—
Due to other funds	—	(341)
Due to other governments	—	—
Deposits	—	—
Advance collections	—	—
Interest payable	(90)	—
Other current liabilities	—	—
Deferred revenue	—	(83)
Benefits payable	—	—
Compensated absences payable	—	—
Other noncurrent liabilities	—	—
Total adjustments	19,339	(90,807)
Net cash provided by (used in) operating activities	**$ 20,247**	**$ (41,080)**

Housing Loan	Other Enterprise Programs	Total
$ (3,831)	$ (14,912)	$ 31,892
70	2,580	2,650
9,592	—	9,592
—	—	87
2,763	—	6,898
(889)	1,704	(4,393)
2,125	(376)	1,749
157	(924)	(769)
—	(416)	(42)
—	231	231
—	173	173
—	—	14,844
1,537	161	1,698
155,599	(6,355)	64,060
(9,062)	—	(9,062)
793	(17,940)	(17,147)
(1,969)	(1,240)	(3,550)
—	15	15
—	(2)	(2)
—	(85)	(85)
—	—	(90)
(4,513)	288	(4,225)
—	—	(83)
(2,586)	—	(2,586)
—	(345)	(345)
203	(6,101)	(5,898)
153,820	(28,632)	53,720
$ 149,989	**$ (43,544)**	$ 85,612

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Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fund** accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Assets

Private Purpose Trust Funds

June 30, 2011
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 902	$ 102,534	$ 1,663	$ 105,099
Investments, at fair value:				
Equity securities	67,810	—	—	67,810
Other	4,453,712	—	—	4,453,712
Total investments	4,521,522	—	—	4,521,522
Receivables (net)	13,218	—	—	13,218
Due from other funds	—	—	2	2
Due from other governments	—	—	62	62
Other assets	—	157,259	1	157,260
Total assets	**4,535,642**	**259,793**	**1,728**	4,797,163
LIABILITIES				
Accounts payable	13,872	—	332	14,204
Deposits	—	157,259	—	157,259
Other liabilities	—	—	519	519
Total liabilities	**13,872**	**157,259**	**851**	171,982
NET ASSETS				
Held in trust for benefits and other purposes	**$ 4,521,770**	**$ 102,534**	**$ 877**	$ 4,625,181

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

Year Ended June 30, 2011
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation in fair value of investments	$ 485,844	$ —	$ —	$ 485,844
Interest, dividends, and other investment income	132,765	—	—	132,765
Less: investment expense	(8,022)	—	—	(8,022)
Net investment income	610,587	—	—	610,587
Receipts from depositors	1,205,142	327,005	300	1,532,447
Total additions	**1,815,729**	**327,005**	**300**	2,143,034
DEDUCTIONS				
Administrative expenses	—	—	22	22
Payments to and for depositors	873,313	249,973	447	1,123,733
Total deductions	**873,313**	**249,973**	**469**	1,123,755
Change in net assets	942,416	77,032	(169)	1,019,279
Net assets, July 1, 2010	**3,579,354**	**25,502**	**1,046**	3,605,902
Net assets, June 30, 2011	**$ 4,521,770**	**$ 102,534**	**$ 877**	$ 4,625,181

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net assets available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

The **Public Employees' Retirement Fund** is administered by the Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **Public Employees' Health Benefits Fund** is administered by CalPERS and accounts for the voluntary contributions from participating employers of the agent multiple-employer other postemployment benefits plan that provides prefunding accounts to pay for health care or other postemployment benefits in accordance with the terms of the participating employer's plans.

The **State Teachers' Retirement Fund** is administered by the State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Teachers' Health Benefits Fund** is administered by CalSTRS and accounts for post-employment health benefits to retired members of the defined benefit program.

The **Deferred Compensation Fund** accounts for moneys withheld from the salaries of participants per the Internal Revenue Code sections 401(k), 457, and 403(b). The moneys are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

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The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 1, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

The **State Peace Officers' and Firefighters' Defined Contribution Plan Fund** is administered by CalPERS and accounts for the employer contributions to the defined contribution plan that supplements the retirement benefits provided to eligible peace officers and firefighters employed by the State of California.

The **Supplemental Contributions Program Fund** is administered by CalPERS and accounts for deposits by participating employees to their accounts in this plan. This fund accepts voluntary after-tax contributions and invests these contributions for the benefit of the participants in the program.

Other pension and other employee benefit trust funds account for contributions from professional boxers, managers, and promoters, and fees collected from admission charges to boxing events to finance a retirement fund for professional boxers and funds contributed by eligible state employees who elect to participate in and contribute to a flexible benefits program that permits eligible employees to receive one or more benefits that qualify for exclusion from gross income instead of receiving a portion of salary.

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Combining Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2011
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation
ASSETS					
Cash and pooled investments	$ 2,265,872	$ 24,611	$ 499,477	$ 745	$ 18,359
Investments, at fair value:					
Short-term	6,613,498	53,754	2,481,467	—	202,735
Equity securities	116,731,425	1,156,659	80,580,320	—	577,655
Debt securities	53,066,388	456,992	28,018,129	—	167,369
Real estate	19,106,946	179,151	18,865,311	—	8,905
Other	42,525,671	—	25,910,052	—	8,389,161
Securities lending collateral	20,420,264	—	25,200,355	—	—
Total investments	258,464,192	1,846,556	181,055,634	—	9,345,825
Receivables (net)	1,993,539	16,339	1,765,331	—	9,139
Due from other funds	418,229	1	167	3	130
Due from other governments	—	—	—	—	8
Other assets	691,045	—	243,875	—	—
Total assets	**263,832,877**	**1,887,507**	**183,564,484**	**748**	**9,373,461**
LIABILITIES					
Accounts payable	—	22	1,960,845	—	4,859
Due to other governments	923	—	1,433	—	—
Benefits payable	1,252,885	19,303	917,085	—	—
Securities lending obligations	20,264,886	—	25,272,358	—	—
Loans payable	—	—	25,985	—	—
Other liabilities	552,392	1,305	40,963	150	3,020
Total liabilities	**22,071,086**	**20,630**	**28,218,669**	**150**	**7,879**
NET ASSETS					
Held in trust for benefits and other purposes	**$ 241,761,791**	**$ 1,866,877**	**$ 155,345,815**	**$ 598**	**$ 9,365,582**

Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
$ 3,750	$ 7,063	$ 884	$ 660	$ 1	$ 11,076	$ 2,832,498
48,846	7	4	33,087	1,666	—	9,435,064
—	307,786	50,433	296,753	11,560	—	199,712,591
—	198,927	72,772	155,349	5,962	—	82,141,888
—	56,531	—	14,765	489	—	38,232,098
—	—	—	—	—	—	76,824,884
—	—	—	—	—	—	45,620,619
48,846	563,251	123,209	499,954	19,677	—	451,967,144
1,952	1,105	181	8	15	—	3,787,609
—	4,601	—	—	—	13	423,144
—	—	—	—	—	—	8
—	—	—	—	—	—	934,920
54,548	**576,020**	**124,274**	**500,622**	**19,693**	**11,089**	459,945,323
—	—	—	—	—	606	1,966,332
—	—	—	—	—	—	2,356
14	—	654	—	—	—	2,189,941
—	—	—	—	—	—	45,537,244
—	—	—	—	—	—	25,985
388	187	144	749	35	366	599,699
402	**187**	**798**	**749**	**35**	**972**	50,321,557
$ 54,146	**$ 575,833**	**$ 123,476**	**$ 499,873**	**$ 19,658**	**$ 10,117**	$ 409,623,766

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2011
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation
ADDITIONS					
Contributions:					
Employer	$ 7,465,397	$ 758,251	$ 3,503,615	$ 36,145	$ 84
Plan member	3,600,089	9,147	2,355,909	—	687,398
Total contributions	11,065,486	767,398	5,859,524	36,145	687,482
Investment income :					
Net appreciation in fair value of investments	41,297,805	—	26,586,479	—	189,722
Interest, dividends, and other investment income	5,120,836	331,492	3,650,687	10	1,122,674
Less: investment expense	(2,514,216)	—	(206,891)	—	(1,335)
Net investment income	43,904,425	331,492	30,030,275	10	1,311,061
Other	3,011	—	6,546	—	12,929
Total additions	**54,972,922**	**1,098,890**	**35,896,345**	**36,155**	**2,011,472**
DEDUCTIONS					
Distributions to beneficiaries	14,242,258	516,960	10,092,064	35,785	16,772
Refunds of contributions	227,168	—	116,089	—	—
Administrative expense	357,779	2,305	110,484	345	15,872
Payments to and for depositors	—	—	—	—	559,374
Total deductions	**14,827,205**	**519,265**	**10,318,637**	**36,130**	**592,018**
Change in net assets	40,145,717	579,625	25,577,708	25	1,419,454
Net assets, July 1, 2010	**201,616,074**	**1,287,252**	**129,768,107**	**573**	**7,946,128**
Net assets, June 30, 2011	**$ 241,761,791**	**$ 1,866,877**	**$ 155,345,815**	**$ 598**	**$ 9,365,582**

* Restated

Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
$ 167,302	$ 53,863	$ —	$ 39,066	$ —	$ —	$ 12,023,723
6,658	18,589	3	—	285	21,523	6,699,601
173,960	72,452	3	39,066	285	21,523	18,723,324
—	91,543	17,667	88,724	—	—	68,271,940
184	53	—	8	3,639	—	10,229,583
—	—	—	(697)	(29)	—	(2,723,168)
184	91,596	17,667	88,035	3,610	—	75,778,355
3,216	—	—	7	—	81	25,790
177,360	**164,048**	**17,670**	**127,108**	**3,895**	**21,604**	94,527,469
185,119	2,236	7,382	—	—	21,095	25,119,671
—	5,870	440	—	—	—	349,567
1,188	716	408	1,839	84	182	491,202
—	—	—	30,949	2,113	—	592,436
186,307	**8,822**	**8,230**	**32,788**	**2,197**	**21,277**	26,552,876
(8,947)	155,226	9,440	94,320	1,698	327	67,974,593
63,093	**420,607**	**114,036**	**405,553**	**17,960**	**9,790** *	341,649,173
$ 54,146	**$ 575,833**	**$ 123,476**	**$ 499,873**	**$ 19,658**	**$ 10,117**	$ 409,623,766

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2011
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,654,587	$ 1,559,894	$ 37,082	$ 4,251,563
Receivables (net)	456,835	21,115	1,599	479,549
Due from other funds	13,393,658	76,255	700	13,470,613
Due from other governments	13,165	105,294	—	118,459
Prepaid Items	25,458	1,684	—	27,142
Interfund receivables	55,817	29,671	4,744	90,232
Loans receivable	—	—	6,875	6,875
Other assets	81	49	—	130
Total assets	**$ 16,599,601**	**$ 1,793,962**	**$ 51,000**	$ 18,444,563
LIABILITIES				
Accounts payable	$ 5,248,591	$ 195,272	$ 4,979	$ 5,448,842
Due to other governments	11,046,831	11,066	25,644	11,083,541
Tax overpayments	2,995	—	—	2,995
Benefits payable	169,165	—	—	169,165
Deposits	42,636	751,392	6,493	800,521
Advance collections	85,446	805	—	86,251
Other liabilities	3,937	835,427	13,884	853,248
Total liabilities	**$ 16,599,601**	**$ 1,793,962**	**$ 51,000**	$ 18,444,563

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2011
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 2,560,914	$ 147,314,791	$ 147,221,118	$ 2,654,587
Receivables (net)	429,658	2,562,399	2,535,222	456,835
Due from other funds	12,338,602	48,904,492	47,849,436	13,393,658
Due from other governments	17,883	56,727	61,445	13,165
Prepaid items	6,689	25,458	6,689	25,458
Interfund receivables	53,022	55,817	53,022	55,817
Loans receivable	66,977	—	66,977	—
Other assets	81	—	—	81
Total assets	**$ 15,473,826**	**$ 198,919,684**	**$ 197,793,909**	$ 16,599,601
LIABILITIES				
Accounts payable	$ 6,284,745	$ 32,352,540	$ 33,388,694	$ 5,248,591
Due to other governments	8,914,973	66,363,943	64,232,085	11,046,831
Tax overpayments	3,756	64,485	65,246	2,995
Benefits payable	151,356	3,992,678	3,974,869	169,165
Deposits	35,913	102,482	95,759	42,636
Advance collections	12,868	1,890,595	1,818,017	85,446
Interfund payables	66,977	—	66,977	—
Other liabilities	3,238	7,957	7,258	3,937
Total liabilities	**$ 15,473,826**	**$ 104,774,680**	**$ 103,648,905**	$ 16,599,601

Deposit Fund

	Balance July 1, 2010 *	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 1,452,424	$ 22,241,955	$ 22,134,485	$ 1,559,894
Receivables (net)	130,477	9,448	118,810	21,115
Due from other funds	65,728	26,281	15,754	76,255
Due from other governments	1,376	104,954	1,036	105,294
Prepaid items	2,381	—	697	1,684
Interfund receivables	54,221	29,671	54,221	29,671
Other assets	244	58,124	58,319	49
Total assets	**$ 1,706,851**	**$ 22,470,433**	**$ 22,383,322**	$ 1,793,962
LIABILITIES				
Accounts payable	$ 70,685	$ 244,590	$ 120,003	$ 195,272
Due to other governments	10,564	1,285	783	11,066
Deposits	781,093	501,891	531,592	751,392
Advance collections	843	—	38	805
Interfund payables	15,000	—	15,000	—
Other liabilities	828,666	21,287,862	21,281,101	835,427
Total liabilities	**$ 1,706,851**	**$ 22,035,628**	**$ 21,948,517**	$ 1,793,962

*Restated

(continued)

Combining Statement of Changes in Fiduciary Assets and Liabilities (continued)

Agency Funds

Year Ended June 30, 2011
(amounts in thousands)

Other Agency Activity Funds

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 34,947	$ 9,661	$ 7,526	$ 37,082
Receivables (net)	868	731	—	1,599
Due from other funds	2,727	457	2,484	700
Due from other governments	—	—	—	—
Interfund receivables	5,344	4,744	5,344	4,744
Loans receivable	10,808	—	3,933	6,875
Total assets	**$ 54,694**	**$ 15,593**	**$ 19,287**	$ 51,000
LIABILITIES				
Accounts payable	$ 6,454	$ 2,324	$ 3,799	$ 4,979
Due to other governments	26,487	277	1,120	25,644
Deposits	6,591	10	108	6,493
Other liabilities	15,162	—	1,278	13,884
Total liabilities	**$ 54,694**	**$ 2,611**	**$ 6,305**	$ 51,000

Total

	Balance July 1, 2010 *	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 4,048,285	$ 169,566,407	$ 169,363,129	$ 4,251,563
Receivables (net)	561,003	2,572,578	2,654,032	479,549
Due from other funds	12,407,057	48,931,230	47,867,674	13,470,613
Due from other governments	19,259	161,681	62,481	118,459
Prepaid items	9,070	25,458	7,386	27,142
Interfund receivables	112,587	90,232	112,587	90,232
Loans receivable	77,785	—	70,910	6,875
Other assets	325	58,124	58,319	130
Total assets	**$ 17,235,371**	**$ 221,405,710**	**$ 220,196,518**	$ 18,444,563
LIABILITIES				
Accounts payable	$ 6,361,884	$ 32,599,454	$ 33,512,496	$ 5,448,842
Due to other governments	8,952,024	66,365,505	64,233,988	11,083,541
Tax overpayments	3,756	64,485	65,246	2,995
Benefits payable	151,356	3,992,678	3,974,869	169,165
Deposits	823,597	604,383	627,459	800,521
Advance collections	13,711	1,890,595	1,818,055	86,251
Interfund payables	81,977	—	81,977	—
Other liabilities	847,066	21,295,819	21,289,637	853,248
Total liabilities	**$ 17,235,371**	**$ 126,812,919**	**$ 125,603,727**	$ 18,444,563

*Restated

(concluded)

Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with GAAP. The inclusion of component units in the State's financial statements reflects the State's financial accountability for these entities. Following are brief descriptions of nonmajor component units.

The **California Alternative Energy and Advanced Transportation Financing Authority** was created to provide financing for alternative energy and advanced transportation technologies.

The **California Infrastructure and Economic Development Bank** provides financing for business development and public improvements.

The **California Pollution Control Financing Authority** was created to provide financing for pollution control facilities.

The **California Health Facilities Financing Authority** was created to provide financing for constructing, equipping, or acquiring health facilities.

The **California Educational Facilities Authority** issues revenue bonds to finance loans for students attending public and private nonprofit colleges and universities and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. The EdFund financial report included in this component unit is as of and for the year ended September 30, 2010.

The **California School Finance Authority** was created for the purpose of providing loans to school and community college districts to assist them in obtaining equipment and facilities.

California State University auxiliary organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the state. This information is as of and for the year ended December 31, 2010.

The **University of California Hastings College of the Law** was established as the law department of the University of California to provide legal education programs and it has a discretely presented component unit that provides private sources of funds for academic programs, scholarships, and faculty research.

The **San Joaquin River Conservancy** was created to acquire and manage public lands within the San Joaquin River Parkway.

(continued)

(continued)

The **California Urban Waterfront Area Restoration Financing Authority** was created to provide financing for coastal and inland urban waterfront restoration projects.

The **State Assistance Fund for Enterprise, Business and Industrial Development Corporation** was created to provide financial assistance to small businesses to enhance economic development.

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Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2011
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
ASSETS					
Current assets:					
Cash and pooled investments	$ 2,003	$ —	$ 28,382	$ 29,023	$ 135,342
Investments	—	—	—	—	—
Restricted assets:					
Cash and pooled investments	—	81,515	—	—	—
Investments	—	11,693	—	—	1,245
Receivables (net)	33	16,155	426	4,963	9,753
Due from primary government	—	99	35	52	1
Prepaid items	—	—	—	—	1,057
Inventories	—	—	—	—	—
Other current assets	—	—	—	—	10
Total current assets	2,036	109,462	28,843	34,038	147,408
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	—	—	—	—
Investments	—	10,494	—	—	858
Investments	—	—	—	—	—
Receivables (net)	—	—	—	—	3,462
Loans receivable	—	308,923	—	33,028	—
Deferred charges	—	1,274	—	—	70
Capital assets:					
Land	—	—	—	—	—
Collections – nondepreciable	—	—	—	—	—
Buildings and other depreciable property	—	—	98	112	10,170
Intangible assets – amortizable	49	—	73	81	8,817
Less: accumulated depreciation/amortization	(7)	—	(98)	(69)	(15,650)
Construction in progress	—	—	—	—	—
Intangible assets – nonamortizable	—	—	8	—	—
Other noncurrent assets	—	—	—	—	—
Total noncurrent assets	42	320,691	81	33,152	7,727
Total assets	**$ 2,078**	**$ 430,153**	**$ 28,924**	**$ 67,190**	**$ 155,135**

California School Finance Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
$ 155	$ 406,959	$ 56,711	$ 11,485	$ 1,412	$ 4	$ 3,549	$ 675,025
—	226,929	2,684	—	—	—	—	229,613
—	—	7,198	2,105	—	—	1,140	91,958
—	—	8,390	—	—	—	—	21,328
3	344,273	7,382	3,910	—	—	192	387,090
—	—	—	—	—	—	—	187
—	—	933	116	—	—	52	2,158
—	—	—	342	—	—	—	342
—	39,635	218	—	—	—	—	39,863
158	1,017,796	83,516	17,958	1,412	4	4,933	1,447,564
—	100,113	—	—	—	—	—	100,113
—	—	4,700	—	—	—	—	16,052
—	1,237,316	—	52,268	—	—	885	1,290,469
—	300,891	—	13,200	—	—	—	317,553
—	—	—	—	—	—	3,563	345,514
—	—	—	—	—	—	—	1,344
—	94,010	22,225	5,585	—	—	—	121,820
—	5,620	—	—	—	—	—	5,620
—	1,103,412	669,103	138,545	—	—	181	1,921,621
—	8,354	—	617	—	—	—	17,991
—	(415,813)	(365,992)	(44,838)	—	—	(138)	(842,605)
—	16,211	1,612	—	—	—	—	17,823
—	5,082	—	—	—	—	—	5,090
—	44,745	435	8,291	—	—	—	53,471
—	2,499,941	332,083	173,668	—	—	4,491	3,371,876
$ 158	**$ 3,517,737**	**$ 415,599**	**$ 191,626**	**$ 1,412**	**$ 4**	**$ 9,424**	$ 4,819,440

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2011
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
LIABILITIES					
Current liabilities:					
Accounts payable	$ 314	$ 420	$ 23,251	$ 813	$ 28,359
Due to other governments	—	—	466	—	—
Deferred revenue	—	2,491	—	—	—
Deposits	—	—	520	—	—
Contracts and notes payable	—	—	—	—	—
Advance collections	—	—	—	101	—
Interest payable	—	1,511	—	—	—
Current portion of long-term obligations	—	5,325	—	—	—
Other current liabilities	103	19,081	103	104	58,602
Total current liabilities	417	28,828	24,340	1,018	86,961
Noncurrent liabilities:					
Loans payable	—	—	—	—	20,000
Compensated absences payable	—	—	—	—	56
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	—
Capital lease obligations	—	—	—	—	—
Net other postemployment benefits	—	711	569	—	5,745
Revenue bonds payable	—	129,864	—	—	8,300
Other noncurrent liabilities	—	14	—	—	684
Total noncurrent liabilities	—	130,589	569	—	34,785
Total liabilities	**417**	**159,417**	**24,909**	**1,018**	**121,746**
NET ASSETS					
Investment in capital assets, net of related debt	—	—	81	124	3,297
Restricted:					
Nonexpendable – endowment	—	—	—	—	—
Expendable:					
Endowment	—	—	—	—	—
Education	—	—	—	—	—
Statute	—	270,736	—	—	—
Other purposes	1,661	—	3,934	66,048	29,342
Total expendable	1,661	270,736	3,934	66,048	29,342
Unrestricted	—	—	—	—	750
Total net assets	**1,661**	**270,736**	**4,015**	**66,172**	**33,389**
Total liabilities and net assets	**$ 2,078**	**$ 430,153**	**$ 28,924**	**$ 67,190**	**$ 155,135**

California School Finance Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
$ 5	$ 76,860	$ 7,878	$ 5,105	$ 2	$ —	$ 99	$ 143,106
—	—	—	—	—	—	—	466
—	70,144	208	575	—	—	—	73,418
—	—	1,734	541	—	—	—	2,795
—	—	17,723	—	—	—	5,622	23,345
—	—	—	—	422	—	—	523
—	—	689	—	—	—	—	2,200
—	145,201	3,026	1,465	—	—	—	155,017
—	113,122	13,617	—	—	—	—	204,732
5	405,327	44,875	7,686	424	—	5,721	605,602
—	—	—	—	—	—	—	20,000
—	2,943	8,507	527	—	—	—	12,033
—	77,483	—	—	—	—	—	77,483
—	363,533	58	—	—	—	—	363,591
—	137,939	3,442	—	—	3	—	148,409
—	307,097	34,556	30,609	—	—	—	510,426
—	197,605	917	8,318	—	—	—	207,538
—	1,086,600	47,480	39,454	—	3	—	1,339,480
5	**1,491,927**	**92,355**	**47,140**	**424**	**3**	**5,721**	1,945,082
—	198,938	271,648	69,388	—	—	44	543,520
—	809,801	—	19,434	—	—	—	829,235
—	—	—	9,153	—	—	—	9,153
—	632,292	—	15,027	—	—	—	647,319
—	—	—	—	—	—	—	270,736
153	—	18,517	—	—	1	—	119,656
153	632,292	18,517	24,180	—	1	—	1,046,864
—	384,779	33,079	31,484	988	—	3,659	454,739
153	**2,025,810**	**323,244**	**144,486**	**988**	**1**	**3,703**	2,874,358
$ 158	**$ 3,517,737**	**$ 415,599**	**$ 191,626**	**$ 1,412**	**$ 4**	**$ 9,424**	$ 4,819,440

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2011
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
OPERATING EXPENSES					
Personal services	$ —	$ —	$ 162	$ —	$ 57,516
Scholarships and fellowships	—	—	—	—	—
Supplies	—	—	—	—	—
Services and charges	1,001	2,673	24,464	2,072	192,589
Depreciation	—	—	5	—	2,228
Interest expense and fiscal charges	—	5,708	—	—	590
Amortization of deferred charges	—	152	—	—	—
Other	175	—	104	—	106,122
Total operating expenses	**1,176**	**8,533**	**24,735**	**2,072**	**359,045**
PROGRAM REVENUES					
Charges for services	—	11,977	10,253	3,289	120,677
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	—	—	—	—	—
Total program revenues	**—**	**11,977**	**10,253**	**3,289**	**120,677**
Net revenues (expenses)	(1,176)	3,444	(14,482)	1,217	(238,368)
GENERAL REVENUES					
Investment and interest income	—	481	—	—	505
Other	2,822	—	175	—	4
Total general revenues	**2,822**	**481**	**175**	**—**	**509**
Change in net assets	1,646	3,925	(14,307)	1,217	(237,859)
Net assets, July 1, 2010	**15**	**266,811**	**18,322**	**64,955**	**271,248**
Net assets, June 30, 2011	**$ 1,661**	**$ 270,736**	**$ 4,015**	**$ 66,172**	**$ 33,389**

* Restated

California School Finance Authority	California State University Auxiliary Organizations	District Agricultural Associations	University of California Hastings College of the Law	San Joaquin River Conservancy	California Urban Waterfront Area Restoration Financing Authority	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
$ —	$ 365,592	$ 75,668	$ 31,217	$ —	$ 3	$ —	$ 530,158
—	45,104	—	1,180	—	—	—	46,284
—	—	—	8,039	—	—	—	8,039
94	950,675	130,584	5,657	63	2	1,193	1,311,067
—	46,866	19,843	3,174	—	—	—	72,116
—	37,074	1,946	1,399	—	—	159	46,876
—	—	—	—	—	—	—	152
—	28,512	38	1,842	—	—	136	136,929
94	**1,473,823**	**228,079**	**52,508**	**63**	**5**	**1,488**	2,151,621
—	645,220	200,921	41,421	—	—	223	1,033,981
—	613,931	—	10,389	307	—	346	624,973
—	6,415	200	445	—	—	—	7,060
—	**1,265,566**	**201,121**	**52,255**	**307**	**—**	**569**	1,666,014
(94)	(208,257)	(26,958)	(253)	244	(5)	(919)	(485,607)
—	215,836	129	8,385	—	—	452	225,788
178	302,295	22,844	4,300	—	—	187	332,805
178	**518,131**	**22,973**	**12,685**	**—**	**—**	**639**	558,593
84	309,874	(3,985)	12,432	244	(5)	(280)	72,986
69	**1,715,936** *	**327,229**	**132,054**	**744**	**6** *	**3,983**	2,801,372
$ 153	**$ 2,025,810**	**$ 323,244**	**$ 144,486**	**$ 988**	**$ 1**	**$ 3,703**	$ 2,874,358

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules:

Schedule of Net Assets by Component
Schedule of Changes in Net Assets
Schedule of Fund Balances–Governmental Funds
Schedule of Changes in Fund Balances–Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Assets by Component

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005
Governmental activities				
Invested in capital assets, net of related debt [1]	$ 10,983,863	$ 14,180,116	$ 77,734,545	$ 79,579,676
Restricted	6,717,078	5,230,983	7,126,013	7,631,057
Unrestricted [2]	(19,417,429)	(43,927,987)	(52,897,395)	(52,631,090)
Total governmental activities net assets	**$ (1,716,488)**	**$ (24,516,888)**	**$ 31,963,163**	**$ 34,579,643**
Business-type activities				
Invested in capital assets, net of related debt	$ 905,632	$ 1,405,232	$ 1,058,136	$ 836,524
Nonexpendable	—	—	—	—
Restricted	7,793,710	7,925,726	5,667,623	7,235,373
Unrestricted	15,567	(125,809)	1,316,631	1,566,246
Total business-type activities net assets	**$ 8,714,909**	**$ 9,205,149**	**$ 8,042,390**	**$ 9,638,143**
Primary government				
Invested in capital assets, net of related debt [1]	$ 11,889,495	$ 15,585,348	$ 78,792,681	$ 80,416,200
Nonexpendable	—	—	—	—
Restricted	14,510,788	13,156,709	12,793,636	14,866,430
Unrestricted [2]	(19,401,862)	(44,053,796)	(51,580,764)	(51,064,844)
Total primary government net assets	**$ 6,998,421**	**$ (15,311,739)**	**$ 40,005,553**	**$ 44,217,786**

[1] In fiscal year 2004, all infrastructure assets were included in the financial statements for the first time.

[2] Unrestricted net assets reflect a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. In fiscal year 2003, unrestricted net assets decreased primarily as a result of lower-than-expected general revenues caused by the near-stagnant economy and the State's continued structural budget deficits.

[3] In fiscal year 2011, the net assets of the governmental funds and enterprise funds changed primarily as a result of the reclassification of $1.2 billion beginning net assets of the California State University Fund from governmental activities.

2006	2007	2008	2009	2010	2011[3]
$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957
8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821
(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)
$ 37,209,569	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**
$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957
—	—	—	—	—	21,812
8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945
1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)
$ 11,342,574	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**
$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914
—	—	—	—	—	21,812
17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766
(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)
$ 48,552,143	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**

Schedule of Changes in Net Assets

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005
Governmental activities				
Expenses				
General government [1]	$ 11,645,679	$ 12,522,222	$ 11,017,624	$ 10,965,932
Education	45,882,706	51,446,964	51,457,841	53,152,986
Health and human services	53,056,652	59,141,547	60,020,524	62,016,344
Resources	3,594,345	3,430,853	4,436,309	4,160,949
State and consumer services	1,014,797	437,134	1,029,460	1,038,327
Business and transportation	7,532,507	7,514,723	7,579,221	7,142,209
Correctional programs	5,803,243	6,681,270	6,214,862	6,611,219
Interest on long-term debt	1,747,104	1,780,748	1,737,696	2,408,246
Total expenses	**130,277,033**	**142,955,461**	**143,493,537**	**147,496,212**
Program revenues				
Charges for services:				
General government [1]	4,128,682	1,138,617	4,386,968	4,733,155
Education	2,323,881	2,710,369	2,631,859	2,936,693
Health and human services	2,114,441	4,867,578	1,751,752	3,280,970
Resources	1,246,058	1,189,327	1,544,260	1,934,532
State and consumer services	568,186	454,051	496,561	601,322
Business and transportation	2,810,411	2,759,007	2,295,747	2,541,072
Correctional programs	12,915	12,406	13,915	12,354
Operating grants/contributions	34,012,965	38,409,125	41,072,413	41,135,441
Capital grants/contributions	1,584,290	1,302,376	916,961	1,090,419
Total program revenues	**48,801,829**	**52,842,856**	**55,110,436**	**58,265,958**
Total governmental activities net program expenses	**(81,475,204)**	**(90,112,605)**	**(88,383,101)**	**(89,230,254)**
General revenues and other changes in net assets				
General revenues:				
Personal income taxes	33,025,783	32,529,941	37,926,550	42,504,352
Sales and use taxes	26,026,927	26,930,469	28,651,768	32,488,563
Corporation taxes	4,564,596	6,489,209	9,027,816	11,174,937
Insurance taxes	1,599,064	1,886,312	2,119,315	2,231,060
Other taxes	2,882,163	2,897,469	2,329,987	2,507,729
Investment and interest	790,514	371,935	155,430	289,363
Escheat [2]	—	—	598,681	525,897
Other	375,495	5,718	87,663	—
Transfers	13,475	66,630	32,965	27,727
Nonoperating grants and gifts	—	575,906	—	—
Special item [3]	—	—	—	—
Total general revenues and other changes in net assets	**69,278,017**	**71,753,589**	**80,930,175**	**91,749,628**
Total governmental activities change in net assets	**$ (12,197,187)**	**$ (18,359,016)**	**$ (7,452,926)**	**$ 2,519,374**

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.

[2] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.

[3] In fiscal year 2006, a related organization assumed debt on the State's behalf.

[4] Since fiscal year 2004, the Public Employees' Benefits Fund is reported as a discretely presented component unit.

[5] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.

2006	2007	2008	2009	2010	2011[5]
$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557
62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944
65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364
4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278
595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019
8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644
7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564
2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064
162,554,812	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**
4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082
3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423
4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261
2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264
640,088	704,512	692,348	658,486	654,034	660,196
3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433
37,203	30,821	27,702	21,592	18,097	14,981
42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215
1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326
62,714,468	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**
(99,840,344)	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**
51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107
34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221
10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416
2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880
2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010
504,655	730,066	639,059	175,584	114,933	62,946
291,549	334,002	282,287	315,642	149,996	229,146
—	—	—	—	—	—
23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)
—	—	—	—	—	—
1,218,311	—	—	—	—	—
102,499,000	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**
$ 2,658,656	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**

(continued)

Schedule of Changes in Net Assets (continued)

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005
Business-type activities				
Expenses				
Electric Power	$ 4,241,000	$ 4,985,000	$ 5,203,000	$ 5,655,000
Water Resources	770,351	739,819	731,099	731,393
Public Building Construction	294,818	347,898	296,502	299,900
State Lottery	2,913,051	2,791,144	3,347,644	3,493,984
Unemployment Programs	8,900,546	10,651,949	10,271,962	8,939,654
California State University	—	—	—	—
High Technology Education	38,415	37,727	37,261	33,690
Toll Facilities	26,058	21,796	18,968	20,861
State University Dormitory Building Maintenance and Equipment	168,513	220,334	426,187	449,080
State Water Pollution Control Revolving	—	14,970	15,131	14,638
School Building Aid	29,837	—	—	—
Housing Loan	217,523	206,864	173,629	142,085
Public Employees' Benefits [4]	1,760,926	1,694,231	—	—
Other enterprise programs	142,556	103,974	98,654	86,612
Total expenses	**19,503,594**	**21,815,706**	**20,620,037**	**19,866,897**
Program revenues				
Charges for services:				
Electric Power	4,241,000	4,985,000	5,203,000	5,655,000
Water Resources	761,222	693,566	714,647	750,282
Public Building Construction	320,220	317,741	307,910	315,718
State Lottery	2,966,270	2,936,030	3,143,408	3,512,126
Unemployment Programs	7,799,776	8,230,208	9,631,916	10,459,688
California State University	—	—	—	—
High Technology Education	44,127	44,268	34,052	36,737
Toll Facilities	5,933	172	121	66
State University Dormitory Building Maintenance and Equipment	187,921	284,719	250,208	395,396
State Water Pollution Control Revolving	—	54,201	51,687	55,218
School Building Aid	24,348	—	—	—
Housing Loan	222,086	189,812	143,805	121,063
Public Employees' Benefits [4]	1,682,323	2,066,530	—	—
Other enterprise programs	131,152	134,544	114,081	115,901
Operating grants/contributions	1,545	762	—	—
Capital grants/contributions	—	145,341	47,528	73,182
Total program revenues	**18,387,923**	**20,082,894**	**19,642,363**	**21,490,377**
Total business-type activities net program revenues (expenses)	**(1,115,671)**	**(1,732,812)**	**(977,674)**	**1,623,480**
Other changes in net assets				
Transfers	(13,475)	(66,630)	(32,965)	(27,727)
Total business-type activities change in net assets	**$ (1,129,146)**	**$ (1,799,442)**	**$ (1,010,639)**	**$ 1,595,753**
Total primary government change in net assets	**$ (13,326,333)**	**$ (20,158,458)**	**$ (8,463,565)**	**$ 4,115,127**

2006	2007	2008	2009	2010	2011[5]
$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000
949,691	951,590	1,009,214	914,837	1,069,662	1,115,793
334,094	334,777	371,904	420,465	494,332	390,173
3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524
8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138
—	—	—	—	—	5,851,355
30,871	22,704	16,916	15,590	15,025	9,590
18,265	—	—	—	—	—
491,914	844,798	699,018	486,349	856,106	—
20,427	12,702	13,056	12,261	16,893	10,953
—	—	—	—	—	—
138,988	127,206	132,101	130,777	122,114	104,667
—	—	—	—	—	—
113,976	141,859	122,921	147,441	130,329	118,006
19,936,464	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**
5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000
949,691	951,590	1,009,214	914,837	1,069,662	1,115,793
384,442	396,895	384,816	366,151	430,069	456,467
3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689
10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783
—	—	—	—	—	2,505,545
26,508	22,966	20,600	15,975	13,015	10,498
21	—	—	—	—	—
512,231	554,851	640,208	811,454	599,571	—
64,740	78,564	71,404	59,923	56,121	55,957
—	—	—	—	—	—
127,733	130,293	130,139	109,636	85,321	89,224
—	—	—	—	—	—
129,048	134,018	137,476	124,952	98,957	105,676
—	—	—	—	—	1,216,808
56,942	182,989	189,064	71,882	91,808	86,272
21,596,844	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**
1,660,380	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**
(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598
$ 1,637,121	**$ (140,490)**	**$ (1,560,999)**	**$ (5,027,063)**	**$ (5,198,750)**	**$ 330,111**
$ 4,295,777	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005
General Fund				
Reserved	$ 2,465,632	$ 2,051,790	$ 1,691,034	$ 1,597,085
Unreserved	(5,987,214)	(15,419,588)	(3,231,734)	(1,410,228)
Nonspendable	—	—	—	—
Restricted	—	—	—	—
Committed	—	—	—	—
Unassigned	—	—	—	—
Total General Fund	**$ (3,521,582)**	**$ (13,367,798)**	**$ (1,540,700)**	**$ 186,857**
All other governmental funds				
Reserved	$ 15,119,363	$ 15,080,420	$ 14,625,056	$ 14,924,365
Unreserved, reported in:				
Special revenue funds	446,626	(3,563,435)	(1,343,432)	(329,018)
Capital projects funds	(456,682)	(225,697)	(226,919)	(403,106)
Nonspendable	—	—	—	—
Restricted	—	—	—	—
Committed	—	—	—	—
Assigned	—	—	—	—
Unassigned	—	—	—	—
Total all other governmental funds	**$ 15,109,307**	**$ 11,291,288**	**$ 13,054,705**	**$ 14,192,241**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from governmental to enterprise funds.

2006	2007	2008	2009	2010	2011[1]
$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —
672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—
—	—	—	—	—	148,019
—	—	—	—	—	156,496
—	—	—	—	—	29,850
—	—	—	—	—	(20,273,606)
$ 2,672,815	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**
$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —
(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—
(882,550)	(1,128,608)	(837,349)	686,113	838,879	—
—	—	—	—	—	39,448
—	—	—	—	—	27,709,325
—	—	—	—	—	2,701,702
—	—	—	—	—	268,888
—	—	—	—	—	(21,847)
$ 14,509,373	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**

Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005
Revenues				
Personal income taxes	$ 32,874,734	$ 32,661,274	$ 37,722,839	$ 42,595,352
Sales and use taxes	25,907,118	26,945,705	28,685,600	32,201,242
Corporation taxes	4,553,105	6,861,200	8,379,316	11,191,937
Insurance taxes	1,599,064	1,886,312	2,119,315	2,231,060
Other taxes	3,038,111	2,745,987	2,422,326	2,482,335
Intergovernmental	36,827,930	41,934,230	42,918,982	42,933,381
Licenses and permits	2,903,858	2,995,740	3,469,741	4,954,025
Charges for services	853,874	907,481	919,280	949,147
Fees and penalties	5,023,910	4,184,896	4,662,893	5,388,332
Investment and interest	1,179,775	614,240	377,694	576,097
Escheat [1]	—	—	598,681	525,897
Other	2,958,572	3,043,575	2,999,820	3,755,426
Total revenues	**117,720,051**	**124,780,640**	**135,276,487**	**149,784,231**
Expenditures				
General government [2]	11,439,651	11,940,555	11,012,217	10,647,740
Education	45,324,021	50,744,179	49,526,563	52,242,779
Health and human services	53,142,973	58,996,212	59,820,274	62,015,628
Resources	3,721,729	3,368,473	3,686,083	4,077,102
State and consumer services	1,091,008	940,665	935,427	973,466
Business and transportation	8,493,157	8,917,181	9,119,237	8,556,618
Correctional programs	5,593,033	5,841,103	6,236,725	6,658,614
Capital outlay	1,654,494	1,666,932	1,245,871	1,534,150
Debt service:				
Bond and commercial paper retirement	3,618,284	4,068,685	1,384,595	3,672,119
Interest and fiscal charges	1,418,880	1,803,378	1,686,776	2,243,764
Total expenditures	**135,497,230**	**148,287,363**	**144,653,768**	**152,621,980**
Excess (deficiency) of revenues over (under) expenditures	(17,777,179)	(23,506,723)	(9,377,281)	(2,837,749)
Other financing sources (uses)				
General obligation bonds and commercial paper issued	5,292,034	9,062,000	18,385,480	5,058,339
Revenue bonds issued	—	3,000,000	4,347,570	99,250
Refunding/remarketing debt issued	1,105,025	275,000	1,183,875	1,937,430
Payment to refund/remarket long-term debt	(1,105,025)	(275,000)	(1,183,875)	(1,937,430)
Premium on bonds issued [3]	—	—	—	—
Proceeds fom loans	—	—	—	—
Capital leases [4]	274,955	515,996	85,390	414,738
Transfers in	5,948,918	8,253,164	18,475,032	4,580,201
Transfers out	(5,954,783)	(8,070,387)	(18,428,564)	(4,546,792)
Total other financing sources	**5,561,124**	**12,760,773**	**22,864,908**	**5,605,736**
Net change in fund balances	**$ (12,216,055)**	**$ (10,745,950)**	**$ 13,487,627**	**$ 2,767,987**
Debt service as a percentage of noncapital expenditures	3.8%	4.0%	2.2%	3.9%

[1] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.
[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.
[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.
[4] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.

2006	2007	2008	2009	2010	2011[4]
$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153
34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805
10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416
2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881
2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662
45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916
5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437
1,002,410	911,387	1,025,569	986,773	974,181	1,008,647
6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387
1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116
291,549	334,002	282,287	315,642	149,996	229,146
4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484
163,859,611	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**
9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651
59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139
65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309
4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757
1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536
10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390
7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791
2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011
6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906
3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110
170,102,060	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**
(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)
7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000
—	—	—	97,635	—	—
5,086,944	9,098,376	1,798,685	—	4,176,050	—
(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—
—	—	295,439	126,107	267,980	32,607
—	—	—	—	1,996,737	35,538
748,037	178,936	268,686	364,813	811,816	204,631
5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229
(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)
9,048,325	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**
$ 2,805,876	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**
5.7%	4.8%	6.4%	4.5%	3.9%	3.8%

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules:

Schedule of Revenue Base
Schedule of Revenue Payers by Industry/Income Level
Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years
(amounts in thousands)

	2001	2002	2003	2004
Personal Income by Industry [1]				
Farm earnings	$ 8,427,822	$ 8,955,752	$ 10,150,317	$ 12,280,621
Forestry, fishing, and other natural resources	4,507,107	4,692,043	4,953,075	5,423,645
Mining	2,566,500	2,281,871	2,622,108	3,181,084
Construction and utilities	66,923,767	68,531,509	72,753,415	81,718,323
Manufacturing	116,186,473	110,571,372	111,918,656	116,471,620
Wholesale trade	43,929,340	44,487,228	46,030,247	48,890,179
Retail trade	64,333,784	66,440,439	69,598,467	72,126,176
Transportation and warehousing	27,727,571	27,642,083	28,252,985	30,593,660
Information, finance, and insurance	111,373,268	109,810,563	114,338,117	122,791,650
Real estate	26,141,268	27,827,645	29,904,716	31,619,196
Services	309,031,154	317,717,940	329,697,856	352,185,406
Federal, civilian	18,613,384	19,808,005	20,322,392	21,782,393
Military	9,978,596	11,018,816	12,601,587	13,970,944
State and local government	107,093,120	115,002,719	123,256,592	128,409,947
Other [2]	251,889,416	252,559,551	256,580,472	270,782,509
Total personal income	**$ 1,168,722,570**	**$ 1,187,347,536**	**$ 1,232,981,002**	**$ 1,312,227,353**
Average effective rate [3]	5.9%	4.5%	4.3%	4.5%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

[1] 2001-2009 information updated.

[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

2005	2006	2007	2008	2009	2010
$ 10,768,206	$ 10,717,550	$ 12,956,636	$ 11,305,755	$ 12,733,336	$ 14,388,058
5,525,123	6,113,265	6,315,641	6,283,890	5,810,207	6,087,301
3,377,669	4,079,889	4,149,812	5,941,012	3,573,326	4,005,008
88,489,742	95,449,922	92,210,578	81,616,505	68,196,525	64,997,062
120,967,397	125,552,449	126,898,654	125,477,543	117,076,154	118,954,788
52,746,931	57,076,834	61,044,879	58,513,945	53,503,312	54,864,272
75,246,169	77,120,391	78,294,262	70,187,437	67,392,192	69,965,832
31,323,480	32,479,826	34,039,990	33,013,734	31,121,392	32,028,443
129,547,463	135,194,422	137,224,346	134,631,911	126,734,027	131,407,014
33,359,788	32,636,932	26,843,294	25,820,542	20,397,841	21,114,788
370,221,265	398,268,992	418,477,513	436,308,219	416,494,893	435,998,294
22,656,661	23,106,175	23,799,175	24,515,496	25,554,656	28,315,174
14,527,841	15,278,175	16,291,470	17,748,164	19,232,459	20,180,968
134,562,236	142,082,695	152,816,128	160,301,440	159,301,017	157,276,145
294,341,042	340,375,871	375,037,756	418,653,795	401,335,916	430,696,151
$ 1,387,661,013	**$ 1,495,533,388**	**$ 1,566,400,134**	**$ 1,610,319,388**	**$ 1,528,457,253**	**$ 1,590,279,298**
4.6%	5.1%	5.0%	5.7%	5.2%	4.7%

(continued)

Schedule of Revenue Base (continued)

For the Past Ten Calendar Years
(amounts in thousands)

	2001	2002	2003	2004
Taxable Sales by Industry				
Retail				
Apparel	$ 13,388,444	$ 14,029,200	$ 15,179,710	$ 16,957,137
General merchandise	47,191,016	48,486,891	50,550,818	53,939,532
Specialty	43,976,514	43,539,120	45,191,191	48,961,996
Food	18,823,587	18,951,412	19,407,823	19,825,771
Restaurant and bars	36,849,193	38,079,830	40,049,699	43,275,038
Household	13,332,175	13,983,287	15,104,217	16,405,347
Building materials	24,208,900	25,816,009	28,200,869	34,154,543
Automotive	85,400,884	87,749,497	94,766,776	103,528,856
Other	10,785,808	10,977,060	11,765,951	13,124,468
Business and personal service	22,240,823	21,812,699	21,648,470	22,306,787
All other	125,320,216	117,525,089	118,230,944	127,597,308
Total taxable sales	**$ 441,517,560**	**$ 440,950,094**	**$ 460,096,468**	**$ 500,076,783**
Direct sales tax rate [2]	4.75%	5.00%	5.00%	5.25%[3]
Taxable Sales by Industry (Using NAICS Codes)[1]				
Retail and Food Services				
Motor vehicle and parts dealers	$ —	$ —	$ —	$ —
Furniture and home furnishings stores	—	—	—	—
Electronics and appliance stores	—	—	—	—
Building materials, garden equipment & supplies	—	—	—	—
Food and beverage	—	—	—	—
Health and personal care stores	—	—	—	—
Gasoline stations	—	—	—	—
Clothing and clothing accessories stores	—	—	—	—
Sporting goods, hobby, book & music stores	—	—	—	—
General merchandise stores	—	—	—	—
Miscellaneous store retailers	—	—	—	—
Nonstore retailers	—	—	—	—
Food services and drinking places	—	—	—	—
All other outlets	—	—	—	—
Total taxable sales	**$ —**	**$ —**	**$ —**	**$ —**
Direct sales tax rate [2]	—	—	—	—

Source: California State Board of Equalization (BOE)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and 2010 is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on July 1, 2004.

[4] Rate change was effective on April 1, 2009.

2005	2006	2007	2008	2009[1]	2010
$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094	$ —	$ —
56,787,153	59,264,894	59,897,350	56,425,472	—	—
52,376,758	54,695,680	34,122,471	27,380,740	—	—
21,128,469	21,864,179	22,461,059	21,504,308	—	—
46,412,847	49,229,418	51,658,575	52,051,404	—	—
17,388,704	17,383,449	16,720,852	17,199,187	—	—
36,152,218	36,163,326	32,656,324	26,647,007	—	—
112,167,922	115,154,535	117,864,918	106,555,420	—	—
14,681,929	15,481,675	30,787,663	27,434,795	—	—
23,090,910	23,650,322	23,355,672	22,045,958	—	—
138,005,393	146,935,543	150,669,375	152,289,155	—	—
$ 536,904,428	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**	**$ —**	**$ —**
5.25%	5.25%	5.25%	5.25%	—	—
$ —	$ —	$ —	$ —	$ 44,488,198	$ 47,355,568
—	—	—	—	8,481,020	8,742,984
—	—	—	—	13,384,338	13,749,019
—	—	—	—	23,978,313	24,750,865
—	—	—	—	22,546,285	22,787,407
—	—	—	—	9,244,958	9,525,910
—	—	—	—	39,077,835	45,226,491
—	—	—	—	25,641,272	27,267,430
—	—	—	—	10,294,172	10,365,480
—	—	—	—	44,921,639	46,323,804
—	—	—	—	16,385,169	16,569,690
—	—	—	—	2,849,864	2,830,615
—	—	—	—	49,921,543	51,282,453
—	—	—	—	145,278,339	150,570,269
$ —	**$ —**	**$ —**	**$ —**	**$ 456,492,945**	**$ 477,347,985**
—	—	—	—	6.25%[4]	6.25%

(concluded)

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2001 and 2009

Personal Income Tax Filers and Liability by Income Level [1]

	2001			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,128,604	8.3 %	$ 4,572	0.0 %
5,000 to 9,999	1,155,324	8.5	10,039	0.0
10,000 to 14,999	1,225,683	9.0	25,923	0.1
15,000 to 19,999	1,130,921	8.3	73,824	0.2
20,000 to 24,999	1,002,785	7.4	147,888	0.5
25,000 to 29,999	909,626	6.7	226,629	0.7
30,000 to 39,999	1,549,987	11.4	728,231	2.3
40,000 to 49,999	1,157,477	8.5	924,568	3.0
50,000 to 99,999	2,846,463	20.9	5,787,835	18.5
$ 100,000 and over	1,495,310	11.0	23,354,608	74.7
Total	**13,602,180**	**100.0 %**	**$ 31,284,117**	**100.0 %**

	2009			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,227,731	8.4 %	$ 7,868	0.0 %
5,000 to 9,999	1,169,737	8.0	9,098	0.0
10,000 to 14,999	1,198,714	8.2	18,447	0.0
15,000 to 19,999	1,183,310	8.1	51,735	0.1
20,000 to 24,999	1,010,590	6.9	107,008	0.3
25,000 to 29,999	898,055	6.1	169,021	0.4
30,000 to 39,999	1,493,475	10.2	572,636	1.5
40,000 to 49,999	1,215,105	8.3	893,622	2.3
50,000 to 99,999	3,066,722	20.9	6,049,084	15.6
$ 100,000 and over	2,174,766	14.9	30,991,082	79.8
Total	**14,638,205**	**100.0 %**	**$ 38,869,601**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2009 is the most recent year for which data are available.

[2] Amounts in thousands.

For Calendar Years 2001 and 2010

Sales Tax Permits and Tax Liability by Industry

	2001 (Using Business Codes)[1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail				
Apparel	31,576	3.3 %	$ 635,951	3.0 %
General merchandise	12,260	1.3	2,241,573	10.7
Specialty	165,266	17.0	2,088,884	10.0
Food	24,323	2.5	894,120	4.3
Restaurant and bars	76,150	7.8	1,750,337	8.4
Household	26,945	2.8	633,278	3.0
Building materials	9,586	1.0	1,149,923	5.5
Automotive	32,088	3.3	4,056,542	19.3
Other	20,908	2.2	512,326	2.4
Business and personal service	102,798	10.6	1,056,439	5.0
All other	467,679	48.2	5,952,710	28.4
Total	**969,579**	**100.0 %**	**$ 20,972,083**	**100.0 %**

	2010 (Using NAICS Codes)[1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services				
Motor vehicle and parts dealers	32,727	3.4 %	$ 2,959,723	9.9 %
Furniture and home furnishings stores	18,252	1.9	546,437	1.8
Electronics and appliance stores	21,984	2.3	859,314	2.9
Building materials, garden equipment & supplies	17,035	1.7	1,546,929	5.2
Food and beverage	29,900	3.1	1,424,213	4.8
Health and personal care stores	21,188	2.2	595,369	2.0
Gasoline stations	10,096	1.0	2,826,656	9.5
Clothing and clothing accessories stores	65,734	6.7	1,704,214	5.7
Sporting goods, hobby, book & music stores	27,724	2.8	647,842	2.2
General merchandise stores	15,684	1.6	2,895,238	9.7
Miscellaneous store retailers	118,369	12.1	1,035,606	3.5
Nonstore retailers	178,056	18.2	176,913	0.6
Food services and drinking places	92,370	9.4	3,205,153	10.7
All other outlets	328,928	33.6	9,410,642	31.5
Total	**978,047**	**100.0 %**	**$ 29,834,249**	**100.0 %**

Source: State Board of Equalization

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.

[2] As of July 1.

[3] Calculated by multiplying the taxable sales by industry shown on pages 268 and 269 by the direct sales tax rate. Amounts in thousands.

Schedule of Personal Income Tax Rates

Calendar Years 2001 - 2010

Married Filing Jointly and Surviving Spouse				
Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level
1.0	Up to $11,496	Up to $11,668	Up to $11,924	Up to $12,294
2.0	11,496 – 27,250	11,668 – 27,658	11,924 – 28,266	12,294 – 29,142
4.0	27,250 – 43,006	27,658 – 43,652	28,266 – 44,612	29,142 – 45,994
6.0	43,006 – 59,700	43,652 – 60,596	44,612 – 61,930	45,994 – 63,850
8.0	59,700 – 75,450	60,596 – 76,582	61,930 – 78,266	63,850 – 80,692
9.3	$75,450 and over	$76,582 and over	$78,266 and over	$80,692 and over
10.3	—	—	—	—

Single and Married Filing Separately				
Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level
1.0	Up to $5,748	Up to $5,834	Up to $5,962	Up to $6,147
2.0	5,748 – 13,625	5,834 – 13,829	5,962 – 14,133	6,147 – 14,571
4.0	13,625 – 21,503	13,829 – 21,826	14,133 – 22,306	14,571 – 22,997
6.0	21,503 – 29,850	21,826 – 30,298	22,306 – 30,965	22,997 – 31,925
8.0	29,850 – 37,725	30,298 – 38,291	30,965 – 39,133	31,925 – 40,346
9.3	$37,725 and over	$38,291 and over	$39,133 and over	$40,346 and over
10.3	—	—	—	—

Head of Household				
Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level
1.0	Up to $11,500	Up to $11,673	Up to $11,930	Up to $12,300
2.0	11,500 – 27,250	11,673 – 27,659	11,930 – 28,267	12,300 – 29,143
4.0	27,250 – 35,126	27,659 – 35,653	28,267 – 36,437	29,143 – 37,567
6.0	35,126 – 43,473	35,653 – 44,125	36,437 – 45,096	37,567 – 46,494
8.0	43,473 – 51,350	44,125 – 52,120	45,096 – 53,267	46,494 – 54,918
9.3	$51,350 and over	$52,120 and over	$53,267 and over	$54,918 and over
10.3	—	—	—	—

Source: California Franchise Tax Board

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.

[2] Beginning in 2009, tax rates increased by 0.25% for all income levels.

Average Effective Rate

(amounts in thousands)

	2001	2002	2003	2004
Personal income tax revenue [1]	$ 44,629,742	$ 32,874,734	$ 32,661,274	$ 37,722,839
Adjusted gross income [2]	754,140,238	731,160,385	762,491,998	841,229,496
Average effective rate [3]	5.9%	4.5%	4.3%	4.5%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2010 information reflects returns processed as of December 2011.

[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

Married Filing Jointly and Surviving Spouse					
2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248
12,638 – 29,958	13,244 – 31,963	13,654 – 32,370	14,336 – 33,988	14,120 – 33,478	14,248 – 33,780
29,958 – 47,282	31,963 – 49,552	32,370 – 51,088	33,988 – 53,642	33,478 – 52,838	33,780 – 53,314
47,282 – 65,638	49,552 – 68,788	51,088 – 70,920	53,642 – 74,466	52,838 – 73,350	53,314 – 74,010
65,638 – 82,952	68,788 – 86,934	70,920 – 89,628	74,466 – 94,110	73,350 – 92,698	74,010 – 93,532
82,952 – 999,999	86,934 – 999,999	89,628 – 999,999	94,110 – 999,999	92,698 – 999,999	93,532 – 999,999
$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

Single and Married Filing Separately					
2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124
6,319 – 14,979	6,622 – 15,698	6,827 – 16,185	7,168 – 16,994	7,060 – 16,739	7,124 – 16,890
14,979 – 23,641	15,698 – 24,776	16,185 – 25,544	16,994 – 26,821	16,739 – 26,419	16,890 – 26,657
23,641 – 32,819	24,776 – 34,394	25,544 – 35,460	26,821 – 37,233	26,419 – 36,675	26,657 – 37,005
32,819 – 41,476	34,394 – 43,467	35,460 – 44,814	37,233 – 47,055	36,675 – 46,349	37,005 – 46,766
41,476 – 999,999	43,467 – 999,999	44,814 – 999,999	47,055 – 999,999	46,349 – 999,999	46,766 – 999,999
$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

Head of Household					
2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257
12,644 – 29,959	13,251 – 31,397	13,662 – 32,370	14,345 – 33,989	14,130 – 33,479	14,257 – 33,780
29,959 – 38,619	31,397 – 40,473	32,370 – 41,728	33,989 – 43,814	33,479 – 43,157	33,780 – 43,545
38,619 – 47,796	40,473 – 50,090	41,728 – 51,643	43,814 – 54,225	43,157 – 53,412	43,545 – 53,893
47,796 – 56,456	50,090 – 59,166	51,643 – 61,000	54,225 – 64,050	53,412 – 63,089	53,893 – 63,657
56,456 – 999,999	59,166 – 999,999	61,000 – 999,999	64,050 – 999,999	63,089 – 999,999	63,657 – 999,999
$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

2005	2006	2007	2008	2009	2010
$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798
932,142,017	990,695,484	1,059,967,500	972,420,100	881,160,200	939,888,500
4.6%	5.1%	5.0%	5.7%	5.2%	4.7%

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules:

Schedule of Ratios of Outstanding Debt by Type
Schedule of Ratios of General Bonded Debt Outstanding
Schedule of General Obligation Bonds Outstanding
Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Report.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2002	2003	2004	2005
Governmental Activities				
General obligation bonds [1]	$ 22,110,822	$ 26,757,371	$ 43,924,636	$ 45,541,417
Revenue bonds	784,015	3,752,040	8,101,855	8,068,980
Certificates of participation and commercial paper	540,092	1,856,702	849,360	752,013
Capital lease obligations	3,597,536	3,906,423	3,745,410	3,918,560
Total governmental activities	**27,032,465**	**36,272,536**	**56,621,261**	**58,280,970**
Business-type activities				
General obligation bonds [1]	3,221,310	2,809,275	2,215,800	2,090,105
Revenue bonds	8,900,472	21,557,908	22,239,016	22,943,536
Certificates of participation and commercial paper	3,937,426	101,528	97,179	51,093
Total business-type activities	**16,059,208**	**24,468,711**	**24,551,995**	**25,084,734**
Total primary government	**$ 43,091,673**	**$ 60,741,247**	**$ 81,173,256**	**$ 83,365,704**
Debt as a percentage of personal income [2]	3.7%	5.1%	6.6%	6.4%
Amount of debt per capita [3]	$ 1,249	$ 1,739	$ 2,294	$ 2,332

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.

[2] Ratio calculated using personal income data shown on pages 286 and 287 for the prior calendar year.

[3] Amount calculated using population data shown on pages 286 and 287 for the prior calendar year.

2006	2007	2008	2009	2010	2011
$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085
7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092
923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340
4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233
59,695,173	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**
1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639
22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315
231,121	179,782	67,204	51,307	64,518	139,974
25,006,935	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**24,648,928**
$ 84,702,108	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 117,846,678**
6.1%	6.0%	6.1%	6.7%	7.7%	7.4%
$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,158

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2002	2003	2004	2005
Net general bonded debt				
General obligation bonds [1]	$ 25,332,132	$ 29,566,646	$ 35,244,356	$ 36,735,442
Economic Recovery bonds	—	—	10,896,080	10,896,080
Less: restricted debt service fund	—	—	—	—
Net Economic Recovery bonds	—	—	10,896,080	10,896,080
Net general bonded debt	**$ 25,332,132**	**$ 29,566,646**	**$ 46,140,436**	**$ 47,631,522**
Net general bonded debt as a percentage of personal income [2]	2.2%	2.5%	3.7%	3.6%
Amount of net general bonded debt per capita [3]	$ 734	$ 846	$ 1,304	$ 1,332

Note: Details regarding the State's general obligation bonds can be found in Note 15 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.

[2] Ratio calculated using personal income data shown on pages 286 and 287 for the prior calendar year.

[3] Amount calculated using population data shown on pages 286 and 287 for the prior calendar year.

2006	2007	2008	2009	2010	2011
$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674
9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050
212,883	792,841	552,326	894	113,172	143,777
9,720,147	8,196,119	9,950,644	8,630,551	7,825,833	7,027,273
$ 48,754,239	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**
3.5%	3.4%	3.7%	4.4%	5.2%	5.1%
$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,158

Schedule of General Obligation Bonds Outstanding

June 30, 2011
(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$	2,193,180
California Library Construction and Renovation		288,380
California Park and Recreational Facilities		22,440
California Parklands		4,515
California Safe Drinking Water		78,445
California Stem Cell Research and Cures		1,075,700
California Wildlife, Coastal, and Park Land Conservation		173,245
Children's Hospital		1,171,230
Class Size Reduction Public Education Facilities		6,952,220
Clean Air and Transportation Improvement		1,018,605
Clean Water		17,945
Clean Water and Water Conservation		6,660
Clean Water and Water Reclamation		30,345
Community Parklands		6,200
County Correctional Facility Capital Expenditure		39,705
County Correctional Facility Capital Expenditure and Youth Facility		123,450
Disaster Preparedness and Flood Prevention		2,143,785
Earthquake Safety and Public Building Rehabilitation		156,355
Economic Recovery		7,171,050
Fish and Wildlife Habitat Enhancement		6,850
Higher Education Facilities		560,100
Highway Safety, Traffic Reduction, Air Quality, and Port Security		8,239,840
Housing Emergency Shelter		3,280,365
Housing and Homeless		3,105
Kindergarten-University Public Education Facilities		28,827,170
Lake Tahoe Acquisitions		2,605
New Prison Construction		115,850
Passenger Rail and Clean Air		210,320
Public Education Facilities		1,821,435
Safe, Clean, Reliable Water Supply		719,800
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,591,330
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		2,379,855
Safe Neighborhood Parks		1,660,420
Safe, Reliable High-Speed Passenger Train		410,050
School Building and Earthquake		19,975
School Facilities		1,633,750
Seismic Retrofit		1,458,605
State School Building Lease-Purchase		7,850
State, Urban, and Coastal Park		5,580
Veterans' Homes		40,345
Voting Modernization		72,520
Water Conservation		30,000
Water Conservation and Water Quality		47,485
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,636,095
Total governmental activity		**78,454,755**
Business-type activity		
California Water Resources Development		420,540
Veterans Farm and Home Building		799,475
Total business-type activity		**1,220,015**
Total general obligation bonds		**79,674,770**
Unamortized bond premium/discount/other		1,012,954
Total general obligation bonds payable	**$**	**80,687,724**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Housing Loans	2002	$ 219,460	$ 31,656	$ 187,804	$ 139,930	$ 34,965	$ 174,895	1.07
	2003	189,288	30,635	158,653	26,735	36,216	62,951	2.52
	2004	138,438	19,439	118,999	28,665	43,683	72,348	1.64
	2005	121,063	27,687	93,376	90,970	34,813	125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
Water Resources	2002	761,222	501,948	259,274	55,200	118,297	173,497	1.49
	2003	689,431	378,412	311,019	61,400	84,726	146,126	2.13
	2004	714,647	495,616	219,031	52,335	74,698	127,033	1.72
	2005	750,282	501,225	249,057	56,645	54,246	110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	124,345	233,215	0.92
Water Pollution	2003	54,201	5,032	49,169	—	9,830	9,830	5.00
Control	2004	51,687	4,059	47,628	—	10,923	10,923	4.36
	2005	55,218	4,082	51,136	21,425	10,424	31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47

(continued)

Source: California State Controller's Office.

[1] Total gross revenues include non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Building Construction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of deferred charges. In addition, operating expenses of the governmental funds do not include capital outlay and debt service.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] The only source of state revenue to pay these bonds is federal transportation funds, and the state obligation to pay debt service on these bonds is limited to and dependent upon receipt of the federal funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2004	$ 5,203,000	$ 4,308,000	$ 895,000	$ 180,000	$ 465,000	$ 645,000	1.39
	2005	5,655,000	4,714,000	941,000	388,000	480,000	868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
Public Buildings Construction	2002	320,220	30,643	289,577	241,628	258,957	500,585	0.58
	2003	317,741	64,148	253,593	252,189	278,400	530,589	0.48
	2004	307,910	18,480	289,430	560,964	271,836	832,800	0.35
	2005	315,718	13,837	301,881	290,210	279,474	569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
High Technology Education	2002	44,127	2,323	41,804	33,120	35,783	68,903	0.61
	2003	44,268	3,035	41,233	34,585	34,425	69,010	0.60
	2004	34,052	4,050	30,002	35,865	32,975	68,840	0.44
	2005	36,737	3,107	33,630	37,060	30,387	67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
California State University	2002	187,921	101,682	86,239	90,372	26,711	117,083	0.74
	2003	238,201	129,413	108,788	85,895	39,841	125,736	0.87
	2004	250,208	172,910	77,298	113,658	49,167	162,825	0.47
	2005	395,396	302,275	93,121	90,025	52,696	142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel	2003	$ 5,844	$ —	$ 5,844	$ —	$ 4,058	$ 4,058	1.44
Island Financing	2004	5,449	—	5,449	—	4,205	4,205	1.30
Authority [4]	2005	8,149	10	8,139	—	5,541	5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2002	86,474	123	86,351	37,646	43,748	81,394	1.06
	2003	84,391	—	84,391	39,065	43,040	82,105	1.03
	2004	82,823	—	82,823	40,600	40,403	81,003	1.02
	2005	86,624	—	86,624	42,296	38,994	81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
Golden State	2003	4,947	—	4,947	—	59,369	59,369	0.08
Tobacco	2004	427,159	367	426,792	60,427	298,708	359,135	1.19
Securitization	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
Corporation	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
Toll Bridge Seismic	2004	139,366	119,141	20,225	—	28,615	28,615	0.71
Retrofit [4]	2005	131,791	97,386	34,405	—	28,615	28,615	1.20
Grant Anticipation	2004	13,150	—	13,150	—	13,150	13,150	1.00
Revenue Vehicles [5]	2005	65,134	—	65,134	41,545	23,589	65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules:

Schedule of Demographic and Economic Indicators
Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	2001	2002	2003	2004
Population (in thousands)				
California [1]	34,513	34,938	35,389	35,753
% Change	1.2%	1.2%	1.3%	1.0%
United States [1]	285,082	287,804	290,326	293,046
% Change	1.0%	1.0%	0.9%	0.9%
Total personal income (in millions)				
California [1]	$ 1,168,723	$ 1,187,348	$ 1,232,981	$ 1,312,227
% Change	2.9%	1.6%	3.8%	6.4%
United States [1]	$ 8,878,830	$ 9,054,702	$ 9,369,072	$ 9,928,790
% Change	3.8%	2.0%	3.5%	6.0%
Per capita personal income				
California [2]	$ 33,863	$ 33,984	$ 34,841	$ 36,703
% Change	1.7%	0.4%	2.5%	5.3%
United States [2]	$ 31,145	$ 31,461	$ 32,271	$ 33,881
% Change	2.7%	1.0%	2.6%	5.0%
Labor force and employment (in thousands)				
California				
Civilian labor force [1]	17,152	17,344	17,391	17,444
Employed [1]	16,220	16,181	16,200	16,355
Unemployed [1]	932	1,163	1,191	1,090
Unemployment rate [1]	5.4%	6.7%	6.8%	6.2%
United States unemployment rate	4.7%	5.8%	6.0%	5.5%

Sources: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Some prior years were updated based on more current information.

[2] Calculated by dividing total personal income by population.

2005	2006	2007	2008	2009	2010
35,986	36,247	36,553	36,856	37,077	37,318
0.7%	0.7%	0.8%	0.8%	0.6%	0.6%
295,753	298,593	301,580	304,375	307,007	309,330
0.9%	1.0%	1.0%	0.9%	0.9%	0.8%
$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,319	$ 1,528,457	$ 1,590,279
5.7%	7.8%	4.7%	2.8%	-5.1%	4.0%
$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,599	$ 11,916,808	$ 12,357,113
5.5%	7.4%	5.7%	4.6%	-4.3%	3.7%
$ 38,561	$ 41,259	$ 42,853	$ 43,692	$ 41,224	$ 42,614
5.1%	7.0%	3.9%	2.0%	-5.6%	3.4%
$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,816	$ 39,948
4.6%	6.4%	4.7%	3.7%	-5.1%	2.9%
17,545	17,687	17,929	18,191	18,204	18,176
16,592	16,821	16,970	16,883	16,142	15,916
953	865	959	1,308	2,063	2,260
5.4%	4.9%	5.3%	7.2%	11.3%	12.4%
5.1%	4.6%	4.6%	5.8%	9.3%	9.6%

Schedule of Employment by Industry

For Calendar Years 2001 and 2010

	2001		2010	
Industry	**Employees**	**Percent of Total State Employment**	**Employees**	**Percent of Total State Employment**
Services	5,505,800	36.7 %	5,834,700	40.9 %
Government				
Federal	197,000	1.3	206,900	1.4
Military	57,400	0.4	61,000	0.4
State and Local	2,127,800	14.2	2,159,200	15.1
Retail trade	1,575,900	10.5	1,508,800	10.6
Manufacturing	1,778,600	11.9	1,242,400	8.7
Information, finance, and insurance	1,114,500	7.4	940,900	6.6
Construction and utilities	835,200	5.6	617,400	4.3
Wholesale trade	658,900	4.4	643,200	4.5
Transportation and warehousing	459,300	3.1	407,300	2.9
Farming	379,500	2.5	381,600	2.7
Real estate	267,200	1.8	247,900	1.7
Natural resources and mining	25,600	0.2	26,800	0.2
Total	**14,982,700**	**100.0 %**	**14,278,100**	**100.0 %**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules:

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

Schedule of Full-time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business and Transportation	Correctional Programs	Total
2002	22,007	122,078	48,749	20,575	14,927	45,145	48,796	322,277
2003	21,738	121,760	50,271	20,047	14,884	43,426	49,268	321,394
2004	20,661	122,040	49,868	19,343	15,039	41,448	48,461	316,860
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,959

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by treating each person who works full time as one employee and those who work part time as fractional positions based on time worked.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2002	2003	2004	2005
General Government				
State Lottery				
Total revenue [1]	$ 2,896	$ 2,782	$ 2,974	$ 3,334
Allocation to Education Fund [1]	$ 1,027	$ 977	$ 1,044	$ 1,149
Judicial Council of California				
Supreme Court [2]				
Cases filed	8,917	8,862	8,564	8,990
Cases disposed	8,802	8,652	8,565	8,535
Courts of Appeal				
Notices of appeal filed [3]				
Civil	6,850	6,917	6,484	6,142
Criminal	6,361	6,493	6,625	6,312
Juvenile	2,631	2,481	2,703	2,626
Trial Courts				
Total civil cases [4, 10]				
Filings	1,569,231	1,548,402	1,503,419	1,426,822
Dispositions	1,377,659	1,386,017	1,360,908	1,304,924
Department of Food and Agriculture				
Milk production (million lbs) [5]	35,065	35,437	36,465	37,564
Farm land (thousand acres) [5]	27,600	26,900	26,400	25,900
Education				
Public Colleges and Universities				
Fall enrollment				
Community Colleges	1,746,602	1,635,253	1,584,170	1,606,858
California State University	406,615	407,530	395,825	405,282
University of California	201,297	208,391	207,909	209,080
K-12 Schools				
Fall enrollment				
Public	6,147,375	6,244,403	6,299,015	6,322,217
Private	635,719	611,350	599,605	591,056

Sources: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of Finance, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; Department of Fish and Game; California Energy Commission; Franchise Tax Board; and Department of California Highway Patrol.

[1] Dollars in millions.

[2] Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and state bar matters.

[3] Includes only one notice of appeal per case.

[4] Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.

[5] Data based on calendar year.

[6] Total nonfarm and farm.

[7] Items reported by license year from reports available at December 31, 2011.

[8] Data compiled from a 10% sample of California licensed drivers.

[9] A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.

[10] Some prior years were updated based on more current information.

N/A = not available

2006	2007	2008	2009	2010	2011
$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439
$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103
9,261	8,988	10,521	9,274	9,562	N/A
9,878	9,247	10,440	9,513	9,439	N/A
6,018	6,116	5,913	5,958	6,122	N/A
6,516	6,508	6,681	6,819	6,857	N/A
2,715	2,880	2,900	2,858	2,759	N/A
1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	N/A
1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	N/A
38,830	40,683	41,203	39,512	40,385	41,462
25,700	25,400	25,400	25,400	25,400	N/A
1,637,767	1,723,225	1,793,801	1,792,944	1,746,686	N/A
417,156	433,017	437,008	433,054	412,372	N/A
214,298	220,034	226,040	230,528	234,464	N/A
6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002
594,597	583,794	564,734	536,393	531,111	515,143

(continued)

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2002	2003	2004	2005
Health and Human Services				
Department of Public Health				
Vital statistics				
Live births [5]	529,245	540,827	544,685	548,700
Department of Social Services				
Total Food Stamp households (avg per month)	678,294	682,202	722,519	792,617
Employment Development Department				
Number of employed [5, 6, 10]	14,907,400	14,871,400	15,126,100	15,440,600
Resources				
Department of Fish and Game				
Sport fishing licenses sold [7, 10]	3,105,525	2,961,100	2,929,204	2,870,727
Hunting licenses sold [7, 10]	1,536,387	1,563,647	1,593,517	1,625,078
California Energy Commission				
Electrical energy generation (gigawatt hours) [10]	274,294	279,800	290,013	289,123
State and Consumer Services				
Franchise Tax Board				
Personal Income Tax [5]				
Number of tax returns filed	13,575,583	13,624,349	13,832,810	14,087,896
Taxable income [1]	$ 601,713	$ 619,166	$ 695,075	$ 767,877
Total tax liability [1]	$ 28,568	$ 30,374	$ 36,093	$ 43,131
Corporation Tax [5]				
Number of tax returns filed	550,853	589,310	616,805	651,060
Income reported for taxation [1]	$ 29,686	$ 50,819	$ 82,328	$ 115,474
Total tax liability [1]	$ 5,601	$ 6,227	$ 7,123	$ 8,680
Business and Transportation				
Department of Motor Vehicles				
Motor vehicle registration [10]	30,875,085	31,017,017	33,289,925	33,363,963
License issued by age [5, 8]				
Under age 18	288,444	283,258	287,800	277,168
Between 18-80	21,848,657	21,937,723	22,073,101	22,155,604
Over age 80	468,709	466,105	482,340	494,577
California Highway Patrol				
Total number of DUI arrests [5, 10]	82,375	87,496	94,023	89,946
Department of Transportation				
Highway center-line miles—rural [5, 9]	11,439	11,414	11,380	11,090
Highway center-line miles—urban [5, 9]	3,843	3,811	3,829	4,123
Correctional Programs				
Department of Corrections and Rehabilitation				
Division of Adult Institutions				
Institution population at December 31 each year	158,099	160,362	162,687	166,723
Division of Juvenile Justice				
Institution population at June 30 each year	5,954	5,024	4,067	3,348

2006	2007	2008	2009	2010	2011
562,157	566,137	551,567	526,774	509,979	N/A
809,782	823,335	892,992	1,067,380	1,340,859	1,576,039
15,613,300	15,691,100	15,142,000	14,326,300	14,409,200	14,646,400
2,924,325	3,003,783	2,857,236	2,838,776	2,410,057	2,483,558
1,655,760	1,718,657	1,670,190	1,679,864	1,677,779	1,786,162
298,094	304,516	307,145	298,310	290,187	N/A
14,382,677	15,016,273	14,806,336	14,638,205	N/A	N/A
$ 812,008	$ 872,869	$ 799,490	$ 729,658	N/A	N/A
$ 45,716	$ 49,693	$ 41,676	$ 38,870	N/A	N/A
684,363	709,937	722,358	727,675	N/A	N/A
$ 140,325	$ 121,843	$ 67,921	$ 55,367	N/A	N/A
$ 9,992	$ 9,414	$ 9,106	$ 7,858	N/A	N/A
33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	N/A
268,199	262,415	244,481	229,545	218,997	N/A
22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	N/A
518,102	562,518	552,150	560,491	579,397	N/A
94,251	92,270	97,019	95,135	89,814	88,922
10,821	10,830	10,811	10,808	10,785	N/A
4,422	4,439	4,393	4,384	4,375	N/A
171,310	170,452	170,283	167,922	162,200	147,181
2,962	2,531	1,877	1,589	1,474	1,263

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2002[1]	2003[2]	2004[3]	2005
General Government				
Department of Food and Agriculture				
Vehicles and mobile equipment [4]	786	941	929	903
Square footage of structures (in thousands)	N/A	467	467	467
Department of Justice				
Vehicles and mobile equipment	999	1,012	967	969
Department of Military				
Vehicles and mobile equipment	173	173	155	152
Square footage of structures (in thousands)	N/A	5,091	5,218	3,348
Department of Veterans Affairs				
Veterans homes	3	3	3	3
Vehicles and mobile equipment	180	157	157	139
Square footage of structures (in thousands)	N/A	1,141	1,598	1,598
Education				
California State University				
Vehicles and mobile equipment [4, 5]	N/A	N/A	N/A	N/A
Campuses	23	23	23	23
Square footage of structures (in thousands)	N/A	50,476	58,983	59,588
Health and Human Services				
Department of Developmental Services				
Vehicles and mobile equipment	771	886	900	836
Developmental centers	7	7	7	7
Square footage of structures (in thousands)	N/A	5,914	5,160	5,185
Department of Mental Health				
Vehicles and mobile equipment	421	425	438	439
State hospitals	4	4	4	4
Square footage of structures (in thousands)	N/A	4,527	4,628	4,626

Sources: California Department of General Services (DGS)

[1] DGS was not able to produce records for the square footage of structures for fiscal year 2002.

[2] For fiscal year 2003, the square footage of structures information is from February 2003 because June 2003 information is not available.

[3] For fiscal year 2004, the square footage of structures information is from November 2004 because June 2004 information is not available.

[4] For fiscal year 2008, DGS was not able to obtain complete set of data from the agency.

[5] Prior to fiscal year 2006, DGS did not require the California State University to report its vehicles. Since 2006, more campuses have reported vehicle information.

[6] For 2008, the California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.

[7] For fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

N/A = not available

2006	2007	2008	2009	2010	2011
907	915	818	803	746	809
453	453	453	466	466	466
968	966	826	870	816	677
210	182	206	182	208	249
3,388	3,388	3,387	3,383	3,154	3,530
3	3	3	5	6	6
111	248	251	120	113	132
1,598	1,598	1,598	1,683	1,600	2,086
601	3,343	3,994	4,015	4,338	4,415
23	23	23	23	23	23
59,921	62,198	63,971	66,686	69,049	71,287
655	829	839	701	569	818
7	7	7	7	5	5
5,181	5,181	5,186	5,187	5,185	5,294
655	629	638	658	665	709
5	5	5	5	5	5
4,673	6,359	6,364	6,348	6,331	6,331

(continued)

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2002[1]	2003[2]	2004[3]	2005
Resources				
Department of Fish and Game				
Vehicles and mobile equipment	3,005	2,754	2,754	3,157
Square footage of structures (in thousands)	N/A	1,108	1,108	1,108
Department of Forestry and Fire				
Vehicles and mobile equipment	3,054	3,071	3,079	3,016
Square footage of structures (in thousands)	N/A	3,656	3,892	3,892
Department of Parks and Recreation				
Vehicles and mobile equipment	3,753	2,467	2,709	3,044
State Parks	266	273	277	278
Acres of state park land (in thousands)	1,433	1,461	1,488	1,506
Square footage of structures (in thousands)	N/A	6,732	6,510	6,348
State Lands Commission				
Vehicles and mobile equipment	58	56	56	56
Acres of land (in thousands)	N/A	4,608	4,498	4,498
State and Consumer Services				
Department of Consumer Affairs				
Vehicles and mobile equipment	1,257	762	646	628
Department of General Services				
Vehicles and mobile equipment	6,087	7,451	6,895	6,883
Square footage of structures (in thousands)	N/A	14,812	15,981	15,995
Business and Transportation				
California Highway Patrol				
Vehicles and mobile equipment[6]	3,930	4,373	3,933	3,930
Square footage of structures (in thousands)	N/A	1,034	1,146	1,147
Department of Motor Vehicles				
Vehicles and mobile equipment	434	434	395	395
Square footage of structures (in thousands)	N/A	1,853	1,853	1,853
Department of Transportation				
Vehicles and mobile equipment	11,152	11,057	11,039	10,856
Square footage of structures (in thousands)	N/A	5,723	6,274	6,284
Correctional Programs				
Department of Corrections and Rehabilitation				
Vehicles and mobile equipment[4]	6,795	7,221	7,189	7,006
Prisons and juvenile facilities[7]	32	32	32	32
Square footage of structures (in thousands)	N/A	39,591	40,483	40,472

2006	2007	2008	2009	2010	2011
3,182	3,311	2,868	3,640	2,630	3,180
1,112	1,120	1,192	1,269	1,301	1,313
2,572	2,945	3,043	3,067	2,598	2,804
3,885	3,883	3,869	3,851	3,947	3,943
2,742	2,988	3,023	3,220	3,102	3,715
278	276	279	278	278	279
1,552	1,235	1,248	1,331	1,365	1,334
6,350	6,350	6,350	6,350	6,350	6,433
49	51	49	57	47	50
4,496	4,492	4,491	4,491	4,491	4,491
1,050	640	726	718	574	578
6,894	7,330	7,558	6,736	5,761	5,670
17,350	18,084	18,084	18,084	18,394	18,602
4,105	4,655	5,228	5,914	5,422	5,337
1,087	1,110	1,118	1,118	1,135	1,135
373	458	434	417	366	366
1,827	1,866	1,848	1,855	1,855	1,842
11,048	11,130	11,098	13,346	11,302	12,759
6,632	6,618	6,229	6,434	6,444	6,519
6,451	6,657	7,908	7,778	5,787	5,985
32	41	41	39	39	39
40,622	40,777	40,831	40,852	41,228	41,399

(concluded)

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